

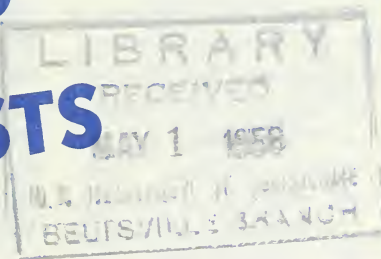
## Historic, archived document

Do not assume content reflects current scientific knowledge, policies, or practices.



See 1963 rev

# PORK MARKETING MARGINS AND COSTS



Washington, D. C., April 1956

UNITED STATES DEPARTMENT OF AGRICULTURE  
Agricultural Marketing Service

## PREFACE

This report on marketing margins and costs for pork is one of several such reports on food items that have been published or are planned by the United States Department of Agriculture for 1956. This group of reports, issued by the Marketing Research Division, Agricultural Marketing Service, is designed to meet a need for more information on farm-to-consumer price spreads on food. Recently, reports were issued on marketing margins and costs for beef, and on costs for food in general. The quarterly data on pork margins and costs that are shown in this report will be published currently in the Marketing and Transportation Situation.

Farmers expect their prices to move up and down with changes in the volume of farm marketings. They also recognize the seasonal character of supply-price changes and many of them make adjustments to meet such changes. Problems of greater magnitude develop, however, when drastic price declines take place that are out of line with normal expectations. This type of supply-price situation developed for hogs and pork in 1955 when prices for barrows and gilts declined more than would have been expected on the basis of past trends.

Farmers have turned to the Department for an explanation of what happened to hog prices. This is a report on "what happened" to hog supplies, prices, and margins.

Fluctuations in dollar margins come about because hog and pork prices do not maintain a fixed relationship to one another at any point in the marketing channel. But a widening or narrowing long-time trend in margins is a clear indication of changes in the costs of performing the marketing services or a change in profits. Changes in costs might be caused by the addition of consumer services in processing or merchandising food, or by a rise in the price of usual services.

The cost factors in providing marketing services, such as labor, supplies, equipment, transportation, rent, and depreciation, are reflected in the marketing margins for pork. Therefore, the key to a reduction of the margins lies primarily in the efficient use of these cost elements. It is for this reason that the Department is allocating a substantial part of its research funds to studies of food marketing costs, ways to reduce such costs, and ways to improve quality, services, or handling methods which might increase the demand for farm products.

## CONTENTS

	Page
Summary.....	3
Changes in supply and demand for pork.....	7
Pork supplies up in 1955.....	7
Less consumer demand for pork relative to beef.....	10
Total supply of meats up in 1955..	12
Trends in marketing margins.....	13
Live-to-wholesale margins.....	15

	Page
Wholesale-to-retail margins.....	18
Overall farm-to-retail margins....	22
Marketing hogs and pork.....	27
Marketing of live hogs.....	27
Slaughtering, processing and wholesaling.....	28
Retailing.....	32
Examples of margins and costs for marketing hogs from farm to retail.....	34



# Summary



The most rapid drop in hog prices ever recorded in the United States for any 6-month period took place from June to December 1955.

The average price of barrows and gilts at Chicago during June was \$19.59, and in December \$10.73, a difference of about \$9 in the average prices for the two months.

This drop in hog prices had an especially severe effect on farmers because it followed a period in which prices had been trending downward rather consistently since April 1954.

The study on which this report is based was made to examine the factors contributing to this price decline, and especially to determine to what extent a tendency toward the widening of the spread between producer and consumer prices—the “marketing margin”—contributed to the declining prices for hogs.

The major influence in this price decline was expanding hog production. Total slaughter of hogs for 1955 was estimated at 80.5 million head, about 12 percent larger than the previous year. This increase in slaughter represented a part of the expansion phase of the hog production cycle, and it was superimposed upon the usual seasonal increase in fall marketings.

Normally, as hog supplies increase from year to year and seasonally within the year, prices are expected to decline. Price declines,

both from 1954 to 1955 and within the latter half of 1955, were about 50 percent greater, however, than would be expected with the increases in marketing which took place. It appears that hog prices recently have been much more sensitive to increases in marketings than several years ago.

Several factors have contributed to a weakening of the demand for pork over the last few years:

- (1) The production and consumption of competing meats has increased.

Beef and veal consumption combined increased from about 62 pounds per capita in 1951 to about 91 pounds in 1955. Poultry consumption also has increased the last few years.

- (2) Expenditures for all red meats have not kept pace with increasing incomes in recent years. Even more critical for hog producers is the fact that expenditures for pork since 1947 have dropped from about 3 percent of consumer income to about 2 percent in 1953 and 1954, while beef expenditures remained relatively stable.

The supply considerations mentioned have been the primary influences causing the recent sharp drop in hog prices; and the several

demand factors mentioned have contributed to a greater sensitivity of hog prices to increasing supplies.

Marketing margins, or price spreads, for pork have been widening during recent years. This is shown by a comparison of the price per pound of pork at retail and the price of its equivalent weight of 1.82 pounds in the live animal. The difference between the price received by the livestock producer and the price paid by the consumer—the “marketing margin”—is the return to all marketing agencies for their services. It includes both the costs and profits of marketing agencies. Costs have risen substantially in recent years.

Marketing margins have increased at an annual rate of 0.8 cents per retail pound of pork since 1947, when they averaged 17.5 cents. Since 1947, marketing margins for pork have increased gradually to 23.7 cents a pound in 1955, a record high. The record low was 8.2 cents in 1933, a depression year.

A more detailed look at monthly and quarterly fluctuations in prices during the 7-year period 1949–55 indicates that retail prices varied widely, ranging from a low of 45 cents a pound for a composite of retail cuts in the first quarter of 1950 to a high of 62.7 cents a pound in the third quarter of 1953. Pork prices were again down to 46.1 cents a pound in the last quarter of 1955. Changes in the farm value of an equivalent quantity of live hog tended to parallel roughly the movements of retail pork prices. Farm prices also fluctuated substantially over the 7-year period. Although marketing margins fluctuated

less widely than prices during this period, they increased from 17.9 cents in the first quarter of 1949 to 25.8 cents in the last quarter of 1955.

Other important characteristics of prices and margins during the 7-year period were (1) a seasonal tendency for margins to narrow in the first half of the year and to widen in the latter half, and (2) a tendency for changes in retail prices to lag behind changes in farm prices.

On the average, the margin increased about \$1 per 100 pounds live weight in late summer and fall. The tendency for retail prices to lag behind changes in wholesale and farm prices results in alternate “squeezings” and widenings of marketing margins over the short run and accentuates the instability of farm prices.

It appears that \$2.50 of the \$9 decline in prices of live hogs at Chicago from June to December 1955 was accounted for by the failure of retail pork prices to fall as rapidly as farm prices of hogs. A little less than half of this widening of the marketing margin between farm and consumer from the second to the fourth quarter of 1955 was accounted for by the packer and wholesaler, and a little more than half at the retail level.

About \$1 of this increase in marketing margins is the usual seasonal change. Margins, therefore, widened approximately \$1.50 more per hundred pounds live weight from the second to the fourth quarter than would usually be expected on the basis of past seasonal patterns of margins.

# PORK MARKETING MARGINS AND COSTS

The most rapid drop in hog prices ever recorded in the United States for any 6-month period took place from June to December 1955, measured in either dollars or percentages. Such rapid changes in prices ordinarily have a substantial effect on the margin between what the farmer receives for hogs and what the consumer pays for pork.

On June 21, 1955, top hogs were priced at \$22.75 per 100 pounds on the Chicago market. On December 7, 1955, the price for top hogs at Chicago was \$11.75. From the high in June to the low in December, less than 6 months later, the decline was \$11 per 100 pounds. Average price of barrows and gilts at Chicago during June was \$19.59, and during December \$10.73, a drop of about \$9.

This drop in hog prices had a more severe impact on farmers because it followed a year in which prices had been trending downward rather consistently. In April 1954 the Chicago average price for barrows and gilts was \$26.75. The downswing of \$16 to the December 1955 average of \$10.73 was the greatest 20-month price decline in the recorded history of hog prices in this country.

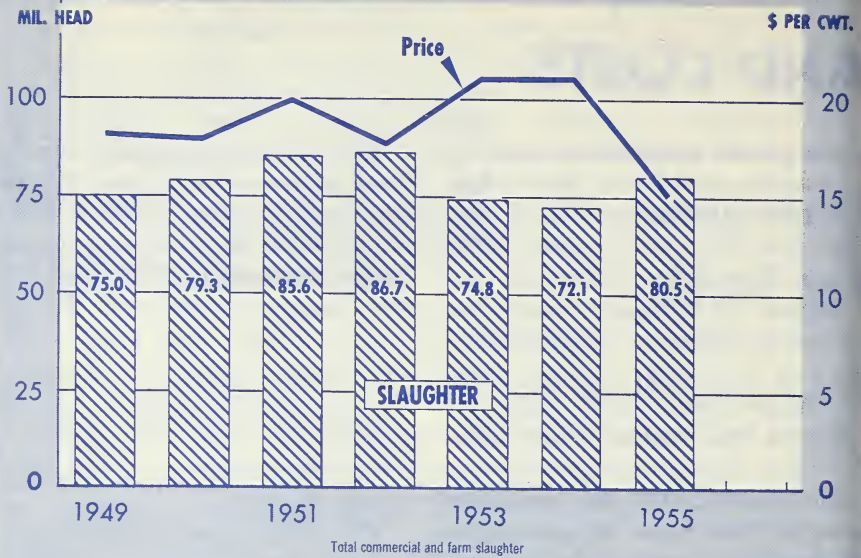
This sharp drop in prices raised several questions in the minds of consumers and farmers. Consumers have asked if retail prices for pork have reflected the declining prices for hogs. Farmers have been concerned about the extent to which lower prices for hogs on the farm may have been associated with (and in part caused by) a general widening of marketing margins.

## *The "Marketing Margin"*

The word "margin" as used in this report is synonymous with "price spread." It is the difference between the price per pound the consumer pays for pork and the payment the farmer receives for an equivalent quantity (1.82 pounds) of live hog. It represents the return to marketing agencies for all the services required in marketing butcher hogs from farm to packing plant, slaughtering the hogs, and processing, wholesaling, and retailing the pork products.



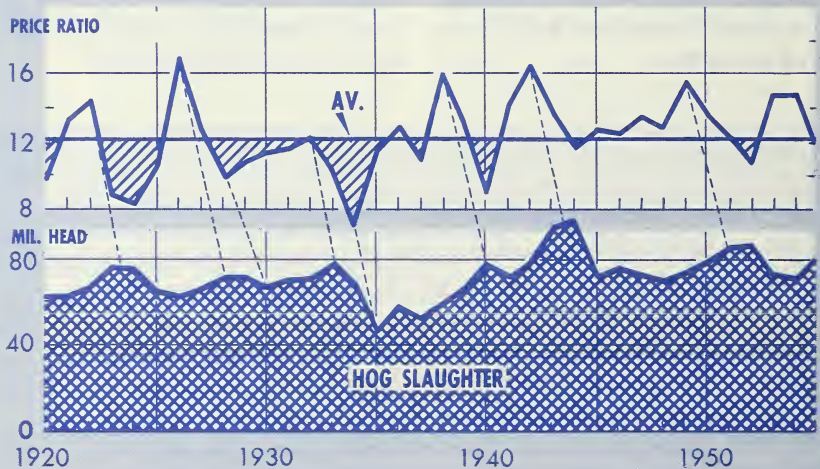
## HOG SLAUGHTER AND PRICES RECEIVED BY FARMERS



AMS NEG. 4002-56 (3)

Figure 1.

## HOG-CORN PRICE RATIO AND HOG SLAUGHTER



Hog-corn price ratio: Bushels of corn equal in value to 100 pounds of live hog.

AMS NEG. 885-56 (3)

Figure 2.



# Changes in Supply and Demand For Pork



## Pork Supplies Up in 1955

One major reason for the price decline is the increase in marketings of hogs during 1955 (fig. 1). Total slaughter of hogs in 1955 was estimated at 80.5 million head, about 12 percent larger than in 1954. With this increase in hog slaughter the average price for the year dropped about 29 percent from 1954 to 1955. On the average, during periods of stability in the general price level, a 10 percent change in production from one year to another would be accompanied by a 15 to 17 percent price change in the opposite direction. The drop in prices between 1954 and 1955 was therefore about 50 percent greater than would usually be expected with a 12 percent increase in marketings.

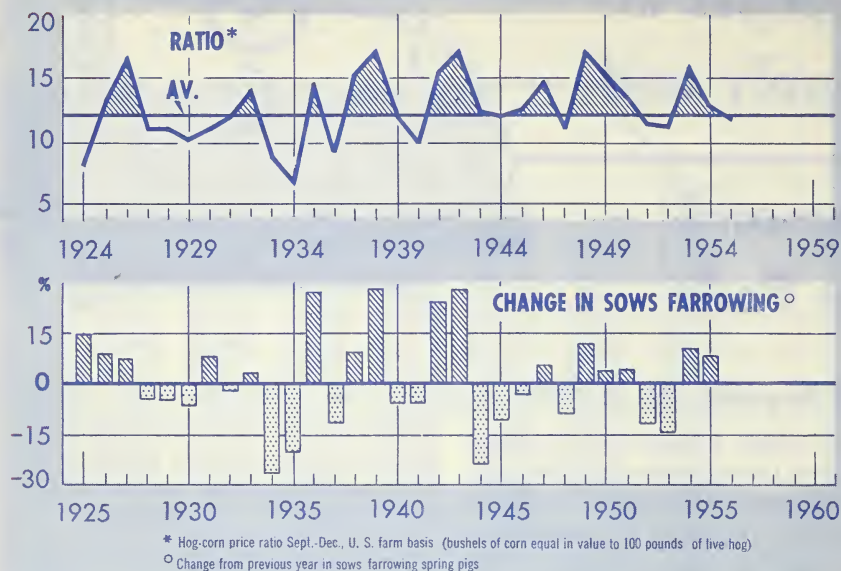
The increase in the year's slaughter in 1955 was part of the expansion phase of the hog production cycle (fig. 2). The interval between peak years in the hog cycle usually varies from 3 to 5 years.

Since about half of the total corn production is usually fed to hogs, the production of hogs has traditionally been geared to the quantity of corn produced. With the coming

of price supports and storage programs for corn, the direct connection between corn supplies and hog production has been weakened considerably. Nevertheless, the hog-corn price ratio—the number of bushels of corn which can be exchanged for 100 pounds of hogs in the market place—appears to remain a controlling influence (fig. 2). A high hog-corn ratio tends to encourage an expansion in hog production. A low ratio is a discouraging factor. A ratio above average is usually followed first by increases in the number of pigs raised. Hog-corn price relationships during the fall breeding season affect the decisions of hog producers in planning their next spring's pig crop (fig. 3). Increases in slaughter follow increases in farrowings. Prices then decline as slaughter increases. On the average, about 12 months elapse from the time sows or gilts are bred until their progeny are ready for market.

A more detailed look at the trends in hog prices and pork production by months is provided in figure 4. The rather striking seasonal pattern of marketings is well illustrated. Each year's peak comes in

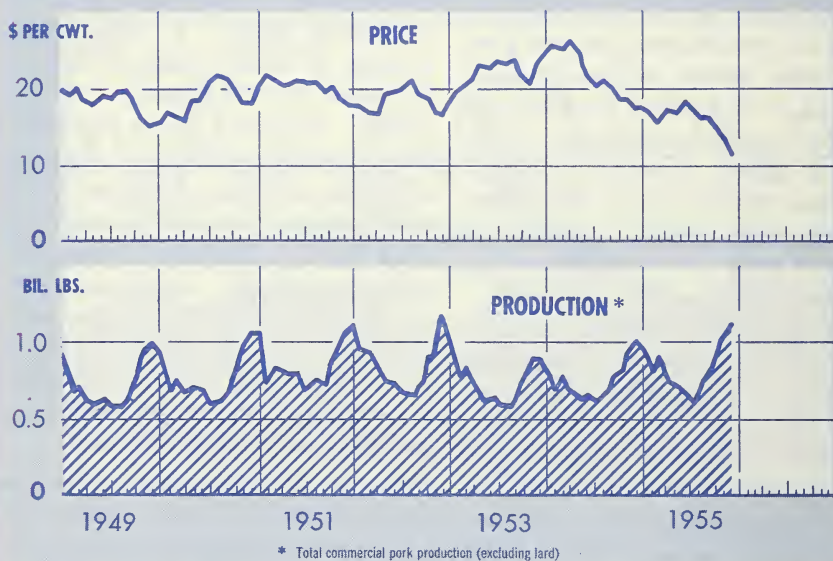
## INFLUENCE OF HOG-CORN RATIO ON SPRING FARROWING



AMS NEG. 1839-56 (3)

Figure 3.

## PORK PRODUCTION AND PRICES RECEIVED BY FARMERS FOR HOGS



AMS NEG. 4003-56 (3)

Figure 4.

late fall. A secondary seasonal peak usually, although not always, occurs in the spring, when marketings of fall pigs are largest. This is followed by a summer "trough," after which pork production increases sharply during the fall marketing of the spring pig crop, reaching a high in either November, December, or January.

Price changes tend to be associated inversely with changes in marketings. Seasonal highs in marketings are usually associated with seasonal lows in prices. However, seasonal price changes are not so consistent as the seasonal changes in marketings. Nor are the seasonal changes in price as large percentage-wise as the seasonal changes in marketings. This latter point is illustrated in figure 5.

On the basis of 1947-53 averages, commercial pork production would be expected to increase about 68 percent between July and December, while average prices of barrows and gilts decrease about 20 percent during the same period. Within the usual seasonal pattern, therefore, a 10-percent increase in production from July to December is associated with a 2.9 percent drop in prices.

During late 1955, however, the expansion phase of the hog production cycle was superimposed upon the usual seasonal increase in fall marketings. Pork production increased about 93 percent from July to December while prices dropped about 40 percent. During this period, a 10-percent increase in production was associated with a

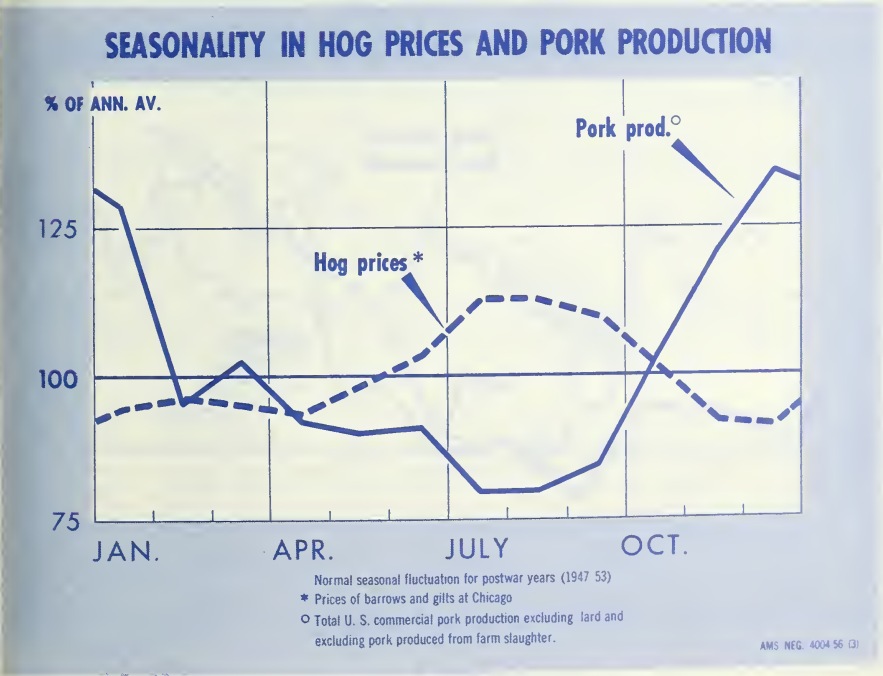


Figure 5.



4.3-percent decrease in prices. Therefore, the price decline during the fall marketing season of 1955, as well as for the year as a whole, was about 50 percent greater than what would usually be expected with the increase in marketings that took place.

It is apparent that the rather dramatic 20-month downswing in prices at Chicago, from the April 1954 monthly average of \$26.75 to the December 1955 average of \$10.73, was caused primarily by increases in production. But the price decline was much greater than would be indicated by the past relationships between prices and production. Hog prices have been much more sensitive to increases in marketings recently than was the case several years ago.

One important factor underlying these recent trends is that for the last three years consumer expenditures for meat have not kept pace with consumer income (fig. 6). Consumers spent very close to 6 percent of their income on meat during the 1920's and through most of the 1930's. In 1952 the figure was 5.7 percent. Since 1952, however, consumer expenditures for meat have not kept pace with increases in incomes. By 1955, the percentage of consumer incomes spent for meat had dropped to 5.1 percent.

### Less Consumer Demand for Pork Relative to Beef

For hog producers an even more critical situation stems from the

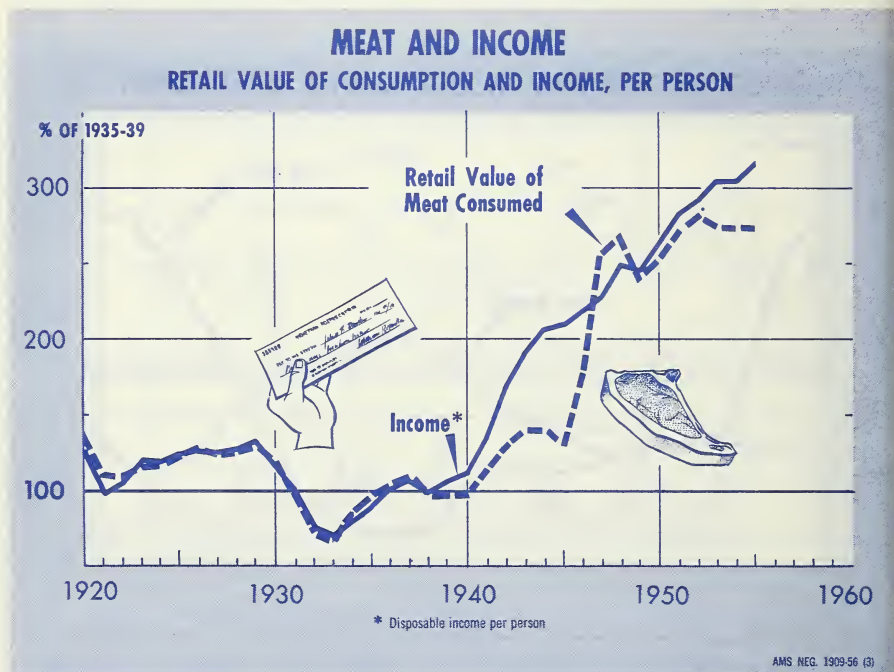


Figure 6.

indications that pork has been gradually losing ground in relation to beef in the consumers' favor. This shift shows up in figure 7. Although expenditures for both beef and pork have fluctuated over the past 40 years, the percentage of income spent for beef has maintained a stable trend, while the proportion spent for pork has tended downward. Consumers spent more of their budget for pork than for beef up to 1933. With the exception of two of the war years, consumer expenditures for pork and for beef were about equal from 1933 to 1947. Since 1947, expenditures for pork have dropped from about 3 percent of consumer income to about 2 percent in 1953 and 1954, while the percentage of expenditures for beef has remained relatively stable.

This change in consumer purchases of pork is also reflected in changing retail prices for pork as compared with beef. Figure 8 shows that the path of the pork-beef retail price ratio (pork prices expressed as a percentage of beef prices) is somewhat irregular, but over the long sweep of the last 40 years it has shown a general downward trend.

Several factors may have a bearing on this shift of consumer purchases. Urban people on the average eat more beef and less pork than farm people, and our population has become more urbanized. Even rural people have developed more urbanized tastes with the increased use of frozen food lockers and home freezers. Also, higher income groups tend to consume more beef than pork. Rising incomes since

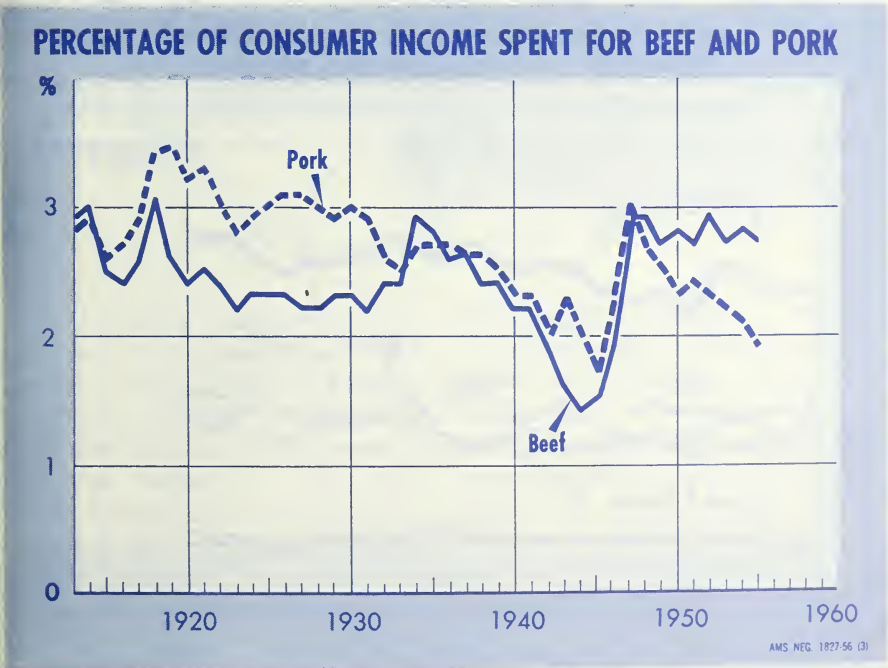


Figure 7.

the war may account for part of the apparently worsened position of pork since 1947. Finally, consumers have expressed a growing dislike for pork cuts that carry excess fat, as indicated by the prolonged decline in the prices of fat cuts of pork relative to prices for

lean cuts. This has been a gradual change over a long period of time.

## Total Supply of Meats Up in 1955

One other factor which has contributed to the decline in pork prices has been the increasing production and consumption of competing meats (fig. 9). Per capita consumption of beef increased from 55.3 pounds (carcass weight) in 1951 to an alltime high of 81.2 pounds in 1955. Beef and veal consumption combined increased from 61.9 pounds per capita in 1951 to 90.6 pounds in 1955. Consumption of all red meats was at a 10-year low of 136 pounds per capita in 1951, but it is estimated at 161 pounds in

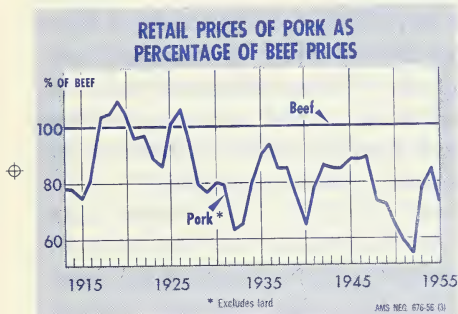


Figure 8.

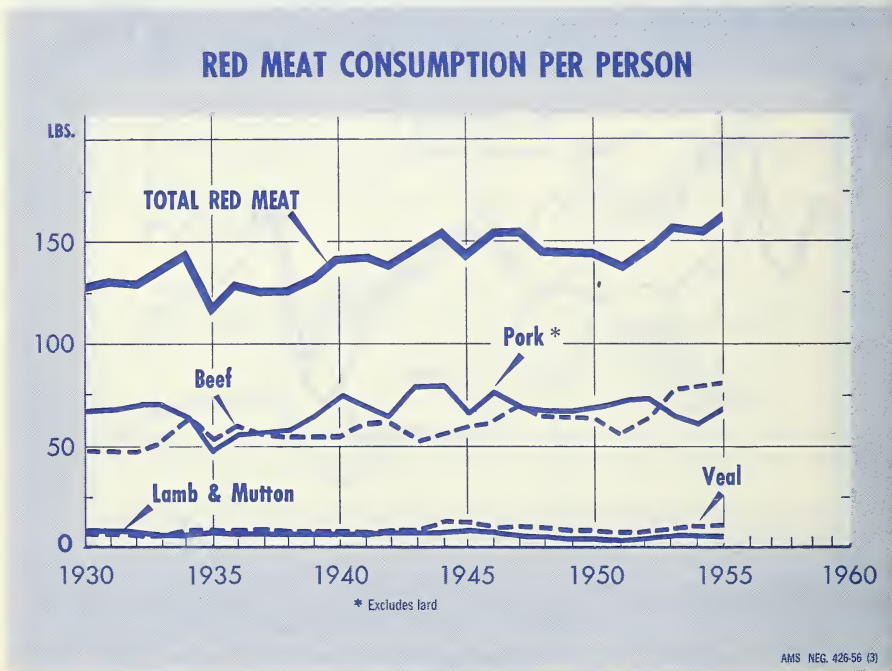


Figure 9.



1955, the high point since 1908. The chart shows that, while pork consumption per capita is about equal to the prewar average, beef consumption is about one-third higher.

The per capita consumption of poultry meat also has increased substantially in the last 15 years. In the decade of the 1930's poultry meat consumption averaged somewhat more than 15 pounds, ready-to-cook basis. In 1940 it stood near 17 pounds per capita. By 1950 consumption had risen to 24 pounds, and by 1955 to about 27 pounds per capita. Each of these several fac-

tors has had its own impact on the pork situation. Each may have had some effect on the greater sensitiveness of hog prices to expanding hog production in 1955 than in most years. For with most competing meats, especially beef, at already high levels of consumption, it appears that the economy may have had less capacity than usual to accept the extra supply of pork which came on the market during the fall of 1955. With high consumption, demand may be less resilient. Added supplies cannot be absorbed without a greater than normal reduction in price.

## Trends in Marketing

### Margins

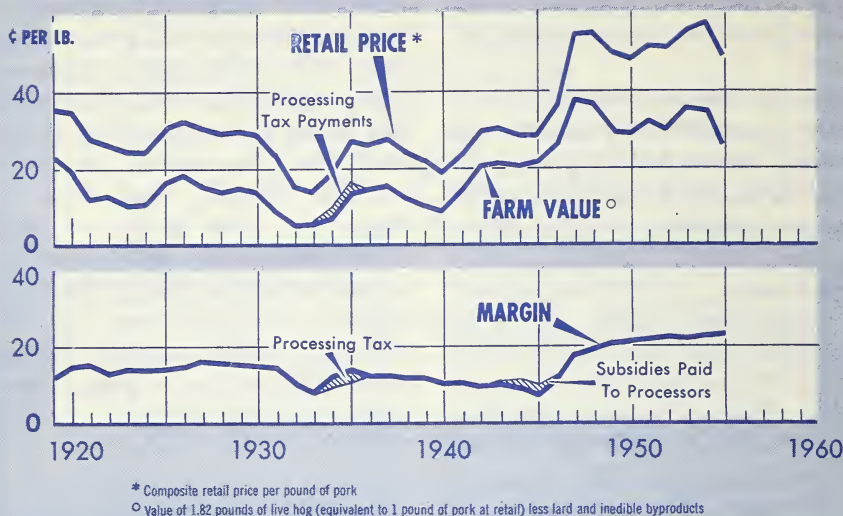


The foregoing indicates that the increase in hog marketings and changes in demand were major factors causing the sharp decline in hog prices during 1955. But changes in marketing margins for pork also had an influence on hog prices and on prices paid by consumers for pork. Changes in marketing margins reflect, in dollars and cents, the net effects of many economic changes that take place constantly in the dynamic process of marketing.

Changes in productivity, expectations, investments, net earnings of marketing agencies, marketing services, cost rates, and other economic factors and conditions of marketing tend to be reflected ultimately as changes in marketing margins.

The costs of providing marketing services have been the principal factors in determining marketing margins for periods longer than a year. During shorter periods, factors such

## FARM AND RETAIL VALUES AND MARKETING MARGIN



AMS NEG. 400556 (3)

Figure 10.

as changes in expectations, price lags, inventories, variations in marketings, and other factors have played an important role in determining marketing margins.

Following World War I, farm-to-retail marketing margins for pork widened, and they tended to widen further in 1921 when retail pork prices and hog prices broke sharply (fig. 10). Retail prices continued to fall in 1922, when hog prices strengthened and marketing margins narrowed.

Marketing margins widened again in 1927 to 16.1 cents per retail pound of pork, the widest margin for any year until 1947. Retail pork prices and hog prices broke sharply during the depression of the early 1930's. Marketing margins narrowed substantially during this period, reaching an all-time

low of 8.2 cents a pound (retail weight) in 1933. They widened during the next 2 years when prices strengthened, and then tended to narrow somewhat until World War II.

With the removal of price ceilings in 1946, retail pork prices, hog prices, and marketing margins increased sharply. The margins widened from 12.7 cents a pound in 1946 to 17.5 cents in 1947, the greatest annual increase in pork marketing margins ever recorded. After 1946, the farm-to-retail marketing margins for pork tended to increase gradually to 23.7 cents a pound in 1955, a record high.

These data for marketing margins do not fully reflect the increase in marketing costs for pork, since only the prices of standard retail cuts were used in the price comparisons.

## LIVE AND WHOLESALE VALUES AND MARKETING MARGIN

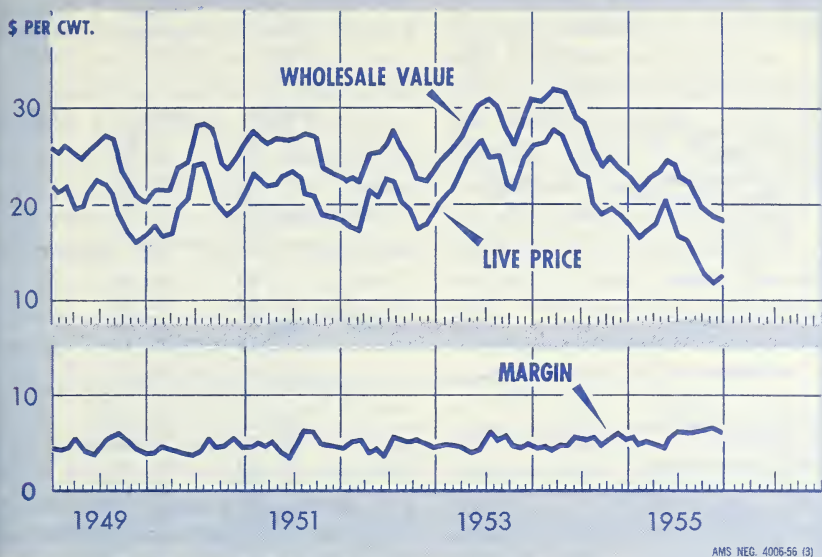


Figure 11.

The comparisons do not include any of the new products involving additional services and costs which were developed during this period, such as ready-to-eat hams, canned hams and picnics, luncheon meats, and other processed pork items.

### Live-to-Wholesale Margins

From 100 pounds of live hog purchased from farmers, meatpackers obtain about 71 pounds of edible pork products. Of these edible products, about 47 pounds comprise the major fresh and cured cuts sold in the wholesale trade to retailers. These cuts include hams, loins, bacon, picnics, butts, and spareribs. The slaughtering process also yields about 9 pounds of minor edible products, such as neckbones, lean trimmings, feet, head meats, heart, and liver. Some

of these are sold in the wholesale market, but most are processed into sausage within the same plant in which the hogs are slaughtered. About 15 pounds of lard is rendered from 100 pounds of live hog. The value of these minor products helps determine the price that the packer is willing to pay the farmer for the live animal.

Prices for 200–220-pound barrows and gilts at Chicago are compared in figure 11 with the wholesale value of pork products at Chicago, for the period 1949–55. This comparison illustrates an estimated price spread for the combined packing, processing, and wholesaling operations. Hog prices at Chicago fluctuated sharply in response to seasonal and cyclical changes in hog marketings over this 7-year period.



TABLE 1.—*Live-to-wholesale marketing margins per 100 pounds live weight of barrows and gilts, by quarters, 1949-55*

Period	Average live price <sup>1</sup>	Average wholesale value <sup>2</sup>	Live-to-wholesale margin <sup>3</sup>
1949:	<i>Dollars</i>	<i>Dollars</i>	<i>Dollars</i>
January-March.....	21.26	25.58	4.32
April-June.....	19.97	24.84	4.87
July-September.....	21.72	26.68	4.96
October-December.....	16.80	21.84	5.04
Average.....	19.94	24.74	4.80
1950:			
January-March.....	16.89	21.08	4.19
April-June.....	18.83	22.95	4.12
July-September.....	23.51	27.94	4.43
October-December.....	19.15	24.15	5.00
Average.....	19.59	24.03	4.44
1951:			
January-March.....	22.23	26.75	4.52
April-June.....	21.97	26.34	4.37
July-September.....	22.28	26.86	4.58
October-December.....	19.32	24.48	5.16
Average.....	21.45	26.11	4.66
1952:			
January-March.....	17.93	22.65	4.72
April-June.....	19.83	24.20	4.37
July-September.....	21.72	26.55	4.83
October-December.....	17.95	22.95	5.00
Average.....	19.36	24.09	4.73
1953:			
January-March.....	20.04	24.62	4.58
April-June.....	24.10	28.26	4.16
July-September.....	25.37	30.46	5.09
October-December.....	22.45	27.39	4.94
Average.....	22.99	27.68	4.69
1954:			
January-March.....	26.18	30.91	4.73
April-June.....	26.75	31.34	4.59
July-September.....	22.14	27.64	5.50
October-December.....	18.84	24.17	5.33
Average.....	23.48	28.52	5.04
1955:			
January-March.....	17.18	22.37	5.19
April-June.....	18.60	23.39	4.79
July-September.....	16.94	23.04	6.10
October-December.....	12.93	19.52	6.59
Average.....	16.41	22.08	5.67

<sup>1</sup> Average price per 100 pounds, 200-220 pounds barrows and gilts, Chicago.

<sup>2</sup> Wholesale value at Chicago of 71 pounds of edible pork obtained from 100 pounds of live hog. Includes 47.36 pounds of major pork cuts, 8.62 pounds of minor pork items, and 15.02 pounds of lard.

<sup>3</sup> Difference between live price and wholesale value of pork products per 100 pounds live weight.

Wholesale values of pork products obtained from 100 pounds of live hog roughly paralleled the trend in live hog prices. Although there were some noticeable changes in live-to-wholesale marketing margins during several of the years, the changes in margins were not generally as great as the changes in prices, at least in dollars and cents.

In 1949, the spread between what the packer paid for hogs and what the packer received for wholesale products was about \$4.80 per 100 pounds live weight (table 1). In 1950 this spread had narrowed to \$4.44. The margin widened thereafter gradually until in 1955 it was about \$5.62. This was an increase of about \$1.18 per 100 pounds live weight from the low point in 1950.

Changes in live-to-wholesale spreads within the year did not always follow consistent seasonal patterns. Nevertheless, certain tendencies in the behavior of these price spreads were apparent. For example, in 6 of the 7 years the April-May-June quarter had the low margin for any quarter within the year (table 1). This is usually a period in which hog marketings are declining rather sharply toward their yearly low (see figure 4). Packers then compete vigorously for a declining supply of hogs in order (1) to keep their killing and cutting gangs working productively and (2) to maintain a supply of products for their customers, whose

prices are more stable than the supply of hogs. There appears to be a tendency for packer-wholesaler price spreads to be somewhat "squeezed" during this period, which is usually one characterized as a

seller's market with relatively high hog prices.

However, during the latter half of the year, when marketings usually increase sharply, packer-wholesaler margins usually widen. In 5 of the 7 years, the last quarter had the widest margins. In 2 of the years it was the third quarter.

With increased marketings, packers, of course, have to expand their hog kill. This requires either more workers or more hours of work per week. With relatively high levels of employment, it has not been practicable to recruit skilled workers for only seasonal jobs. The only alternative is to increase the hours of work, which in most cases results in overtime pay. In this situation packers have no problem in obtaining the supply of hogs they require, but they often have a problem in handling all the hogs that are delivered to them. The live hog market then has a weaker undertone. Packer-wholesaler price spreads usually become wider during the fall when farmers begin selling their spring pig crop in sizable numbers, and when there often is a buyer's market.

The situation described illustrates the effects of the changing demand for marketing services. When hog marketings are large, the demand for marketing services is high. The supply of marketing services, however, is rather inflexible in the short run in terms of plant facilities and even in terms of the labor supply. With a high demand for marketing services and a restricted supply of plants, equipment, and labor in the short run, the margin (or the price) for packer-wholesaling serv-

ices tends to be high. On the other hand, the converse is true when hog marketings are light. Then the demand for marketing services is low, and packers often must take a lower margin (or price) for the processing and wholesaling services they provide.

Another factor influencing seasonal patterns of packer margins was a tendency for wholesale pork price movements to lag behind live hog price changes on several occasions when hog supplies either increased or decreased sharply. A few of these situations are illustrated in figure 11. In the summers of 1951 and 1952, live hog prices increased for several months and then declined; and wholesale prices followed a similar pattern of change, but lagged a month or two behind live hog prices. As a result, margins narrowed and widened successively during these periods. To a lesser extent, this also happened in 1950 and 1954. In the fall of 1955, the initial sharp drop in hog prices was accompanied by a more moderate drop in wholesale prices and a rather sizable widening of packer margins.

Live hog prices respond rather rapidly when hog marketings begin to increase consistently week by week. Wholesale prices often do not decline until several weeks later when packers find it difficult to move the increasing supplies of wholesale pork at the previously prevailing levels of wholesale prices. After the peak of marketings is past, live hog prices strengthen rather rapidly when hog supplies begin to decrease consistently week by week. Again, it is not until

several weeks later that meat supplies are reduced enough to enable packers to charge appreciably higher prices from retailers for wholesale pork.

## **Wholesale-to-Retail Margins**

A comparison of the average United States retail price per pound of fresh and cured pork products (excluding lard and byproducts) with the price of the equivalent quantity of wholesale cuts at Chicago for 1949-55 is shown in figure 12. Retail price data used for this comparison are derived from prices of a few individual cuts of pork collected nationally by the United States Bureau of Labor Statistics. The wholesale prices of pork are based on market price quotations for fresh and cured pork products at Chicago.

Retail prices and wholesale prices of pork tended to follow the same seasonal and cyclical patterns during 1949-55 as shown for hogs earlier, but the patterns are not as well marked. The effects of seasonal and cyclical variations in the supply of pork on wholesale and retail prices, however, are rather clearly indicated in these figures.

The comparison of retail and wholesale prices of pork reveals two important characteristics of retail price changes during the 7 years: (1) A gradual widening of wholesale-to-retail margins, and (2) changes in retail pork prices have tended to lag behind changes in wholesale prices during short periods of rapidly changing prices.

The wholesale-to-retail price spread was \$10.24 per 100 pounds of retail cuts of pork in 1949 (table



TABLE 2.—*Wholesale-to-retail marketing margins per 100 pounds major pork cuts, by quarters, 1949-55*<sup>1</sup>

Period	Average wholesale value <sup>2</sup>	Average retail value <sup>3</sup>	Wholesale- to-retail margin <sup>4</sup>
1949:	<i>Dollars</i>	<i>Dollars</i>	<i>Dollars</i>
January-March.....	46.27	55.40	9.13
April-June.....	45.84	56.25	10.41
July-September.....	49.40	58.64	9.24
October-December.....	39.97	52.14	12.17
Average.....	45.37	55.61	10.24
1950:			
January-March.....	38.83	49.57	10.74
April-June.....	42.13	53.20	11.07
July-September.....	50.64	61.08	10.44
October-December.....	42.77	55.63	12.86
Average.....	43.59	54.87	11.28
1951:			
January-March.....	46.69	58.60	11.91
April-June.....	46.23	58.89	12.66
July-September.....	47.87	60.21	12.34
October-December.....	43.31	57.92	14.61
Average.....	46.02	58.90	12.88
1952:			
January-March.....	40.91	54.76	13.85
April-June.....	44.81	55.80	10.99
July-September.....	49.71	61.01	11.30
October-December.....	42.96	57.28	14.32
Average.....	44.60	57.21	12.61
1953:			
January-March.....	46.34	57.10	10.76
April-June.....	53.08	63.92	10.84
July-September.....	56.11	69.14	13.03
October-December.....	49.03	62.87	13.84
Average.....	51.14	63.26	12.12
1954:			
January-March.....	55.56	67.68	12.12
April-June.....	56.13	68.51	12.38
July-September.....	49.72	63.79	14.07
October-December.....	43.44	58.22	14.78
Average.....	51.21	64.55	13.34
1955:			
January-March.....	41.23	55.20	13.97
April-June.....	43.86	55.52	11.66
July-September.....	43.42	57.17	13.75
October-December.....	35.71	51.32	15.61
Average.....	41.06	54.80	13.74

<sup>1</sup> It takes approximately 2.13 pounds of live hog to yield 1 pound of these major pork cuts (ham, bacon, loin, picnic, butt, spareribs, and bacon square) at the retail store.

<sup>2</sup> Wholesale value of 100 pounds of pork at Chicago computed from Livestock Market News and National Provisioner price quotations of individual cuts.

<sup>3</sup> Retail value of 100 pounds of pork in the United States computed from prices of individual cuts collected nationally by the Bureau of Labor Statistics.

<sup>4</sup> The difference between the wholesale and retail values.

2). It increased to \$11.26 per 100 pounds retail weight in 1950. Thereafter it increased somewhat irregularly to \$13.82 in 1955.

Widening of wholesale-to-retail margins from 1949 to 1955 was considerably less than many of the changes in margins which took place during short periods. These erratic month-to-month fluctuations in retail margins reflect the failure of retail prices to respond quickly to changes in wholesale prices. As a result, lags in retail price adjustments have tended to accentuate fluctuations in hog prices.

Some illustrations of lags in retail pork prices behind changes in wholesale pork prices and the effects of these price lags on retail pork margins are shown in figure 12.

For example, in the early summer of 1950 when wholesale prices rose

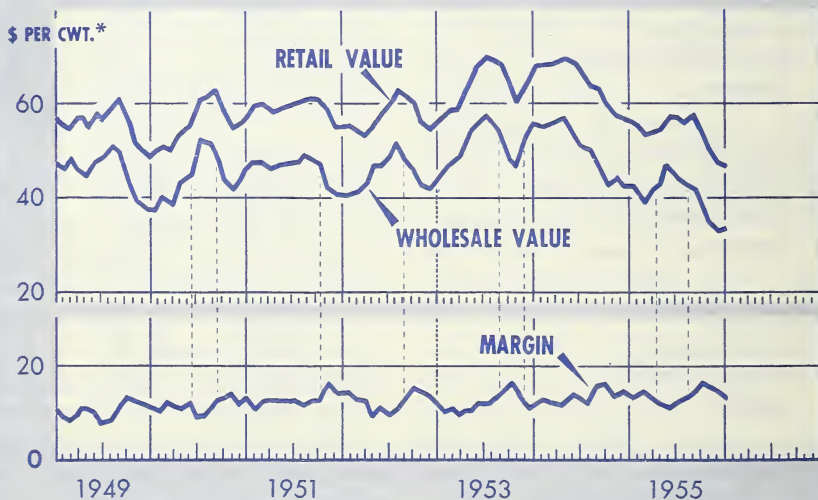
sharply, retail prices did not respond fully. Because of this, retail margins were "squeezed" during these months. In the late summer and fall of the same year, when wholesale prices dropped seasonally, retail pork margins widened since retail prices did not drop by a corresponding amount. Margins gradually returned to a \$12 figure during a period of 3 months.

Again in the late summer and early fall of 1953, when wholesale prices were declining, retail margins widened; and the margins narrowed in the late fall of that year, when wholesale prices rose sharply. In 1955, margins narrowed when wholesale prices rose in the summer and widened when wholesale prices declined in the fall.

Changes in retail prices usually follow behind changes in wholesale

### Price Spreads for Pork

## **WHOLESALE AND RETAIL VALUES AND MARKETING MARGIN**



\* Major pork cuts (excluding lard and minor products)

AMS NEG. 4007-56 (3)

Figure 12.

prices, and changes in wholesale prices usually follow behind changes in live animal prices. Within any year, pork supplies fluctuate much more than consumer demand for pork. For this reason, the focal point in pricing pork and live hogs is at the packer buying level, where changes in pork supplies are first felt, rather than at the retail level.

Hog prices usually respond rather rapidly to pronounced changes in hog marketings. The changes in wholesale and retail prices usually follow behind changes in live hog prices, but not always by a corresponding amount.

The first impact of changes in pork supplies is on packers' inventories. Some of the variability of hog marketings is smoothed through storage operations and inventory changes. With small changes in hog marketings, inventories may be adjusted without any corresponding change in wholesale prices. With substantial changes in hog marketings, however, packers must lower wholesale pork prices in order to move increased volumes, or raise wholesale prices in order to ration smaller supplies among their customers.

Wholesale prices often change by only small increments— $\frac{1}{2}$  cent to 1 cent a pound. Retailers often ignore these small wholesale price changes and wait until definite trends in wholesale prices become established before changing retail prices, usually by larger increments of 5 or 10 cents. This tends to result in alternate widening and narrowing of retailing margins. A narrowing of margins in one period tends to be compensated for by

a widening of margins in another.

Most retailers change their retail meat prices less frequently than once a week, with the exception of a few specialty items which are reduced in price for weekend sales. Individual retailers have different policies, however, about changing prices. Some retailers follow a policy of adjusting their retail pork prices quickly to changes in wholesale prices. Others change prices much more slowly.

Retailers are often reluctant to change prices because of possible adverse reaction of consumers to rapidly changing prices. They generally believe consumers prefer a relatively stable price situation rather than one in which prices are constantly changing by small amounts. In periods of rising pork prices, retailers appear to be especially fearful of an adverse consumer response to the full force of the increasing price level. This is one important reason why retail prices lag behind wholesale during upward price trends.

In periods of declining wholesale pork prices, reflecting increases in pork supplies, there is little immediate, economic incentive for retailers to lower their retail pork prices to move large quantities of pork. Retailers buy only that quantity of pork they believe they can sell. If such a period of declining prices follows a period in which retailing margins were "squeezed," the retailers may look at the drop in wholesale prices as a favorable market development, permitting them to regain what they believe to be a proper margin. Immediate pricing decisions of re-



tailers are not compelled, nor even persuaded, by the increases in packers' inventories of wholesale pork which have to be moved.

During downward price changes, lower wholesale prices permit retail price adjustments. Competition from other retailers, who may be acting as price leaders, compels price adjustments. In this instance, the price leader, motivated by the wider margin, promotes the sale of what have become relatively higher profit items by reducing retail prices. On the upswing of prices, rising wholesale prices are the compelling influence in retail price adjustments, while price policies of competitors are the permissive factors in upward adjustments. The combined effects of price leadership by some retailers and the actual

changes in wholesale prices themselves tend to bring about a general change in the level of retail pork prices.

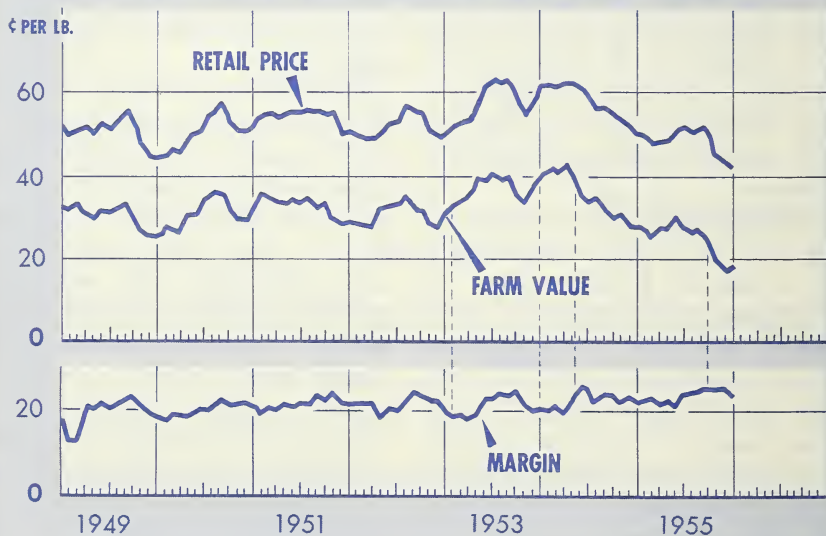
## Overall Farm-to-Retail Margins

Retail prices per pound of pork and the farm value of its equivalent 1.82 pounds of live hog are compared, by months, for the 1949-1955 period in figure 13.

There were wide fluctuations in retail prices during 1949-55, ranging from a low of 45 cents per pound in the first quarter of 1950 to a high of 62.7 cents a pound in the third quarter of 1953. But there was little difference in average retail price between the first and last years of the period. Consumers paid 50.6 cents a pound on the aver-

### Price Spreads for Hogs and Pork

#### FARM AND RETAIL VALUES AND MARKETING MARGIN



AMS NEG. 4008-56 (3)

Figure 13.

age for retail cuts of pork in 1949 and 49.2 cents in 1955, although pork prices were down to 46.1 cents a pound in the last quarter of 1955.

Beginning with the second quarter of 1954, a period of the year when pork prices usually rise seasonally, retail prices turned downward. They tended downward throughout the latter half of 1954 and all of 1955, although they rose slightly during the second and third quarters of 1955.

In one year, from the second quarter of 1954, to the same quarter in 1955, retail pork prices dropped 12.1 cents a pound, from 61.9 cents to 49.8 cents. This is equivalent to a decline of about \$7 per 100 pounds of live hog. There was an added price drop of 3.7 cents per pound from the second to the fourth quarter of 1955.

Changes in the farm value of 1.82 pounds of live hog, equivalent to a pound of pork at retail, tended to parallel roughly the movements of retail pork prices. Both retail prices and farm values fluctuated substantially over this 7-year period. Quarterly average retail prices varied from a low of 45.0 cents a pound to a high of 62.7 cents, a range of 17.7 cents. The farm value of 1.82 pounds of live hog varied from 20.3 cents to 41.0 cents, a range of 20.7 cents.

During this same 7-year period, marketing margins varied from 17.9 cents a pound of pork at retail to 25.8, a range of 7.9 cents a pound, which was considerably less than the dollars and cents range of variation for either retail prices or equivalent farm values.

The costs of providing marketing services (labor, rent, supplies, transportation, and equipment) tend to remain rather constant over short periods, even though prices of livestock and meat change rather substantially in response to changed conditions of supply and demand. Because these costs of supplying marketing services are not closely related to livestock and meat prices in the short run, marketing margins fluctuate less in dollars and cents than either farm prices of hogs or retail prices of pork.

As suggested by the previous section on live-to-wholesale and wholesale-to-retail margins, three other important characteristics of prices and margins during the 7 years are indicated by a comparison of retail prices and farm values. These are (1) a gradual widening of farm-to-retail margins, (2) a seasonal tendency for narrower margins in the first half of the year and wider margins in the latter half, and (3) a tendency for changes in retail prices to lag behind changes in farm prices.

The long-run trend has been one of widening margins since World War II (fig. 10). Margins increased sharply during the postwar inflation. Since 1947, the increase has been more moderate, but fairly consistent. In 1947 the farm-to-retail margin averaged 17.5 cents a pound for pork at retail. In 1955 it averaged 23.7 cents, the highest annual figure on record. This represents an increase of 6.2 cents a pound since 1947, or an average increase of about 0.8 cent a year. This increase in the marketing margin may reflect increasing costs of providing

marketing services, including labor, rent, transportation, equipment, and supplies.

Within each year in the 1950-55 period, there were some sizable fluctuations of marketing margins which do not appear to be attributable to changes in costs of providing marketing services. The seasonal nature of the changes in marketing margins is apparent in the following average prices for each quarter during the 6-year period (corrected for the increasing trend of 0.8 cent a pound a year):

	<i>Quarterly average margin per pound, 1950-55</i>
January-February-March----	21.0 cents
April-May-June-----	21.0 cents
July-August-September-----	22.8 cents
October-November-December_	22.8 cents

On the average the margin for converting 1.82 pounds of live hog on the farm to 1 pound of pork at the retail store was 1.8 cents more during the latter half of the year than during the first half. This is equivalent to an increase of about \$1 per 100 pounds live weight in the marketing bill in late summer and fall.

A part of this seasonal difference in marketing margins can be explained by the changing numbers of hogs marketed which represent changing demands for marketing services.

The other factors influencing the seasonal pattern in the overall marketing margin are the lags in price adjustments between farm and wholesale prices and between wholesale and retail prices. The peak of hog marketings has usually been reached by the beginning of

the year. Prices for live hogs usually advance during the first quarter of the year when marketings are declining. Since retail prices tend to lag behind farm prices during this upward price movement, farm-to-retail margins are often narrower at this time.

On the other hand, hog marketings usually begin their seasonal expansion in midsummer. Prices generally are declining during the third quarter of the year. Since retail prices lag behind wholesale and wholesale prices lag behind live hog prices, margins often widen at this time of the year.

Figure 13 illustrates some of the effects of the lags in the adjustment of retail prices to changes in farm prices. In early 1953, farm prices rose more rapidly than retail prices, and margins appeared to be "squeezed" for a time. In late 1953 and early 1954, there was a similar situation. In mid-1954, however, margins widened sharply as retail prices lagged behind sharply dropping prices of hogs.

In the latter half of 1955, the lag of retail prices behind the rapidly declining hog prices brought the overall marketing margin to a record high figure. From the second quarter to the fourth quarter of the year, retail prices for pork dropped 3.7 cents a pound (table 3) while the equivalent quantity of live hogs dropped 8.0 cents in value. The marketing margin increased by 4.3 cents a pound of retail pork. This is equivalent to 2.36 cents a pound of live hog.

In January 1956 retail prices continued their downward trend, while farm prices rose from their Decem-



TABLE 3.—*Farm-to-retail marketing margins per pound of pork at retail, by quarters, 1949-55*<sup>1</sup>

Period	Retail price <sup>2</sup>	Gross farm value <sup>3</sup>	Byproducts allowance <sup>4</sup>	Net farm value <sup>5</sup>	Margins <sup>6</sup>	Farmer's share
	<i>Cents</i>	<i>Cents</i>	<i>Cents</i>	<i>Cents</i>	<i>Cents</i>	<i>Percent</i>
1949:						
January-March.....	50.3	35.7	3.3	32.4	17.9	64
April-June.....	51.2	33.4	2.9	30.5	20.7	60
July-September.....	53.4	35.1	2.9	32.2	21.2	60
October-December.....	47.4	29.1	2.5	26.6	20.8	56
Average.....	50.6	33.3	2.9	30.4	20.2	60
1950:						
January-March.....	45.0	28.9	2.6	26.3	18.7	58
April-June.....	48.5	31.7	2.9	28.8	19.7	59
July-September.....	56.2	38.8	3.6	35.2	21.0	63
October-December.....	51.3	33.2	3.4	29.8	21.5	58
Average.....	50.3	33.2	3.2	30.0	20.3	60
1951:						
January-March.....	54.2	38.3	4.6	33.7	20.5	62
April-June.....	54.5	37.5	4.2	33.3	21.2	61
July-September.....	55.5	37.1	4.0	33.1	22.4	60
October-December.....	53.1	33.9	3.8	30.1	23.0	57
Average.....	54.3	36.7	4.2	32.5	21.8	60
1952:						
January-March.....	50.0	30.9	3.1	27.8	22.2	56
April-June.....	50.9	33.3	2.8	30.5	20.4	60
July-September.....	55.4	36.0	2.7	33.3	22.1	60
October-December.....	52.1	31.1	2.2	28.9	23.2	55
Average.....	52.1	32.8	2.7	30.1	22.0	58
1953:						
January-March.....	51.7	34.8	2.5	32.3	19.4	62
April-June.....	58.0	40.6	2.8	37.8	20.2	65
July-September.....	62.7	43.0	3.6	39.4	23.3	63
October-December.....	57.0	39.2	4.2	35.0	22.0	61
Average.....	57.4	39.4	3.3	36.1	21.3	63
1954:						
January-March.....	61.5	45.5	4.5	41.0	20.5	67
April-June.....	61.9	44.0	4.5	39.5	22.4	64
July-September.....	57.3	37.1	3.9	33.2	24.1	58
October-December.....	52.3	32.7	3.5	29.2	23.1	56
Average.....	58.3	39.8	4.1	35.7	22.6	61
1955:						
January-March.....	49.5	29.6	2.9	26.7	22.8	54
April-June.....	49.8	31.2	2.9	28.3	21.5	57
July-September.....	51.4	29.2	2.5	26.7	24.7	52
October-December.....	46.1	22.6	2.3	20.3	25.8	44
Average.....	49.2	28.1	2.6	25.5	23.7	52

<sup>1</sup> It takes 1.82 pounds of live hog to yield 1 pound of retail pork.

<sup>2</sup> Composite retail price per pound of pork. This retail price is not identical with the retail price shown in table 2, which represents the average for those retail cuts derived from the seven major wholesale cuts for which wholesale price quotations were available.

<sup>3</sup> Farm value of 1.82 pounds of live hog including lard and inedible byproducts.

<sup>4</sup> Farm value imputed to lard and inedible byproducts.

<sup>5</sup> Net farm value of 1.82 pounds of live hog less allowance for lard and inedible byproducts.

<sup>6</sup> Difference between retail price and net farm value.

ber low (fig. 13). As a result, the marketing margin narrowed about \$1 per 100 pounds live weight from the October-November-December average.

As indicated earlier, the average price for barrows and gilts at Chicago was \$19.55 per 100 pounds in June 1955 and \$10.73 in December, a difference of about \$9 per 100 pounds. It appears that about \$2.50 of this \$9 price decline from June to December was accounted for by the failure of wholesale and retail prices for pork to fall as fast as farm prices for hogs, or by a widening of the farm-to-retail marketing margin. A little less than half of this widening of the marketing margin from the farm to the consumer, between the second quarter and the fourth quarter of 1955, was accounted for at the packer-

wholesaler level, and a little more than half at the retail level.

About \$1 of this increase in marketing margin is the usually expected seasonal change. Margins, therefore, widened approximately \$1.50 per 100 pounds live weight more from the second to the fourth quarter than would usually be expected on the basis of past seasonal patterns of margins.

The marketing margins shown in figures 11, 12, and 13 are not comparable. The live-to-wholesale margin is based on live weight, the wholesale-to-retail margin is based on major wholesale pork cuts, and the farm-to-retail margin is based on both major and minor pork items. A comparison of the live-to-wholesale and wholesale-to-retail margins, adjusted to a live-weight basis, is shown in figure 14.

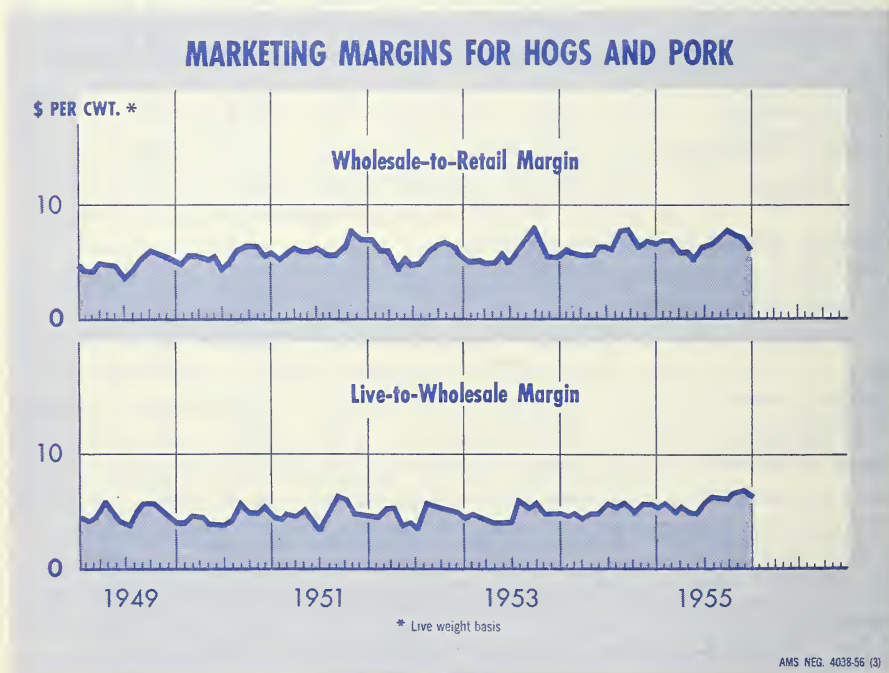


Figure 14.

# Marketing

## Hogs and Pork



The marketing margin is a return to marketing agencies for their services. Who does the various jobs and what it costs to transform a slaughter hog into pork chops, roasts, sausages, and other products are subjects of lively interest to farmers and consumers. To illustrate the jobs that must be done and returns to the various marketing agencies under different marketing conditions, six examples of marketing from farm to retail are presented later in this report.

The job of supplying pork every day of the year for 165 million consumers is the business of millions of farmers and thousands of marketing agencies. Farmers produce the pork from newborn pigs on the farm, raising them to slaughter weights 6 to 8 months later. It is the job of the marketing agents—dealers, auctioneers, commission men, truckers, railroaders, slaughterers and packers, wholesalers, jobbers, brokers, and retailers—to provide the facilities and services required to move pork off the farms into the hands of consumers at the time and place and in the forms they desire.

### Marketing of Live Hogs

Marketing of hogs begins when the animals are sold for the first time; usually, when they are sold

for slaughter, because most producers raise their own pigs to slaughter weights.

Producers usually have several alternative channels through which they can market their butcher hogs. The costs of marketing are related to the channels through which the animals move, and to the marketing services provided. A common practice in marketing hogs is to sell direct to packing plants. Producers also sell hogs through terminal public markets, auction markets, or to local dealers or country buyers, depending upon expected price, expenses of marketing, and nearness or convenience of the market.

Transportation is a large item of expense in marketing livestock. Transportation expenses may be borne directly by the farmer in shipping hogs to distant markets, or indirectly in the form of lower prices when selling at the farm. In the latter instance, the direct out-of-pocket expense of transportation, for either live animals or for wholesale meat and meat products, is paid by the hog buyer and meat processor.

In addition to the direct expense of shipping hogs to market, the shipper also bears a hidden transportation cost of "tissue shrinkage," or the net loss in weight of the carcass, when live animals move to



or from the market. The amount of shrinkage varies with distance shipped, time in transit, and other factors.

A second major expense in marketing hogs is at the public livestock markets. The farmer usually has the alternative of selling his own hogs or engaging the services of a market agent to sell them for him. No direct "selling expense" is borne by the farmer when he sells his own hogs to a local dealer, at a country buying station, or at a packing plant. In these instances, transportation, if any, is the only direct expense. When the farmer ships his hogs to a livestock auction or to a terminal public market for sale, he bears an additional expense for the use of facilities and for services performed at the market.

About 2,300 livestock auction markets are available to farmers in the United States. A common practice of the auctions is to sell livestock on one particular day of the week. Auction personnel receive livestock consigned for sale and care for the animals until loaded for shipment after sale. Animals are usually sold in a sales ring to the highest bidder, by open competitive bidding. The farmer selling hogs pays a fee for the use of the auction facilities and the services performed.

Expenses at the terminal market consist of charges made by the stockyards company for the use of its facilities and services, and fees paid to commission firms at the market for the service of selling or buying slaughter hogs. A shipper selling his hogs at the terminal public market usually consigns his

hogs to a particular commission firm at the market. The animals are received by the stockyards company, delivered to the commission firm's pen, fed and watered, weighed at the time of sale, and loaded for shipment after sale. The shipper pays for yardage, feed, bedding, use of facilities, and services performed. The buyer of livestock at a public market may purchase the hogs himself or he may engage an agent to buy the animals for him.

Some of the expenses of marketing live hogs are borne directly by meatpackers. The packer pays for procuring hogs for slaughter. Hogs bought at farms, country buying stations, and auctions by packers have to be shipped to the packing plant for slaughter. Although some of the packing plants are conveniently near terminal markets, many hogs purchased at terminals have to be shipped to distant points for slaughter.

Packers follow several practices in buying hogs. Many packers have their own salaried employees at country points, auctions, and terminal markets to buy hogs for them. Packers also buy through local dealers on a commission basis, or through order buyers at terminal markets, paying a commission for each hog bought for their account. Eastern packers especially follow the practice of buying hogs in the Eastern Corn Belt States through order buyers.

## **Slaughtering, Processing, and Wholesaling**

Slaughtering, processing, and wholesaling comprise the next step

in the marketing of pork from farm to the consumer.

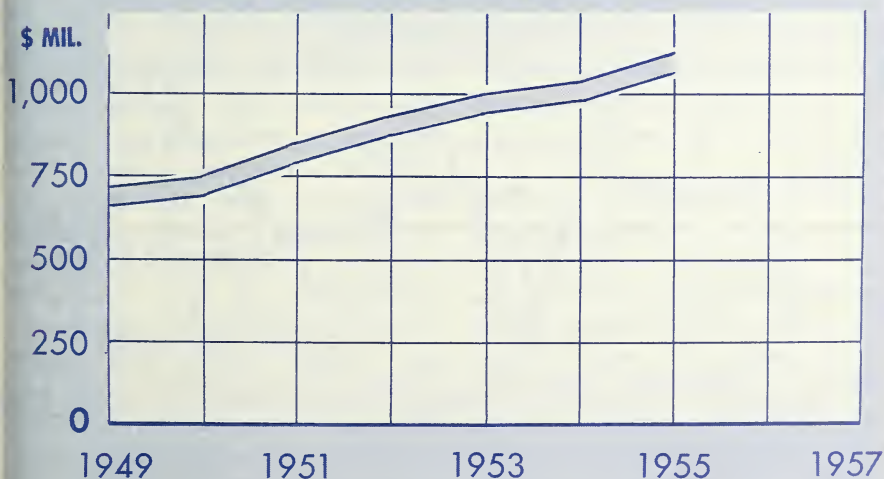
Pork packing is essentially the slaughtering of the hog and disassembling of the carcass into its component parts—hams, bacon, picnics, butts, spareribs, loins, and other miscellaneous items—and the curing and processing of some of these pork products. After the cutting and trimming operations, some wholesale cuts—loins, spare-ribs, butts, neckbone—are wrapped and boxed for immediate sale to the retail trade. Others—bellies (bacon), jowls (bacon squares), hams, picnics—are cured or frozen for curing later. The trimmed fat and most fatbacks are rendered into lard. Lean pork trimmings are used in preparing sausage. Some of the wholesale cuts mentioned are

utilized also in manufacturing processed meats.

Recently, some meatpackers adopted the practice of trimming off all fat from loins and hams in excess of  $\frac{1}{4}$  inch to promote the sale of pork. This change in trimming practices will tend to lower the retailer's gross margin per pound on hams and loins and raise the packer-wholesaler's margin on these items, but not by the same amount. It is likely that the trimmed-off fat will be better utilized at the packing-house level as an edible byproduct than at the retail level as an inedible product.

From every 100 pounds of live hog, the packer obtains, on the average, about 47 pounds of major fresh and cured pork products, about 9 pounds of edible byprod-

## TOTAL WAGES TO EMPLOYEES IN MEATPACKING INDUSTRY

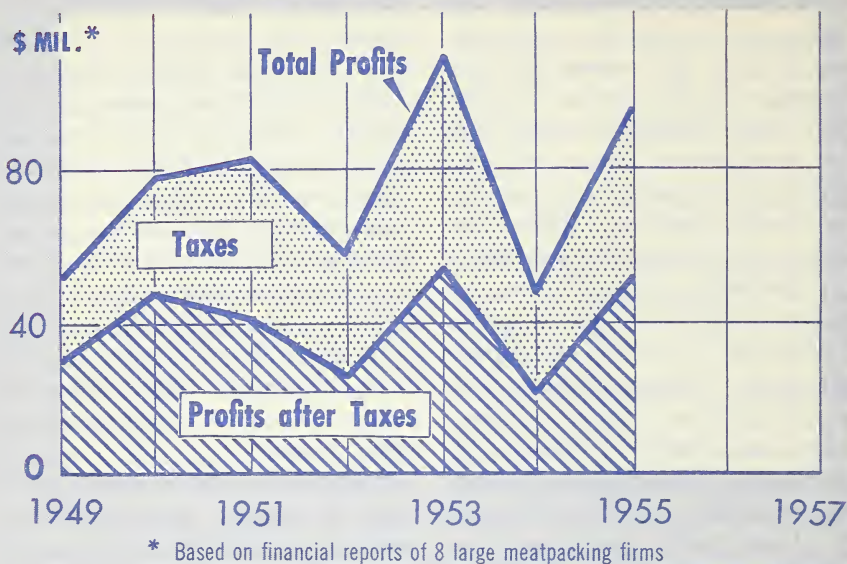


Data from Bureau of Labor Statistics

AMS NEG. 4009-56 (3)

Figure 15.

## MEATPACKING PROFITS



AMS NEG. 4010-56 (3)

Figure 16.

ucts, and about 15 pounds of rendered lard. The approximate yields of the wholesale cuts of pork are: Smoked hams, 12 percent; picnics, 6 percent; bacon, 10 percent; loins, 10 percent; butts, 5 percent; spare-ribs and bacon squares, 3 percent. The pork carcass comprises about 71 percent of the live hog, on the average.

The Department has not made recent studies of the meatpacker's costs. Information reported by the meatpacking industry, however, indicates that, on the average, during 1950-54 about 77 cents of each dollar of packers' meat sales was paid for livestock and raw materials.<sup>1</sup> Wages and salaries accounted for an additional 11 cents. About 6 cents was paid for supplies, containers, and transportation. The remaining 6 cents of the

meatpacker's sales dollar includes payments for taxes, depreciation, interest, and miscellaneous expenses, and also includes total net earnings.

Operating costs have been increasing since 1949. Transportation rates in 1955 were up 17 percent over 1949. Average hourly earnings of production and related workers in the meat industry rose 42 percent. Total wage payments to production workers in the industry have increased 62 percent from 1949 to 1955 (fig. 15). Profits for 8 large meatpacking firms fluctuated widely during this period (table 4, fig. 16). Net income, less taxes, more than doubled from 1954 to 1955, approaching the high of

<sup>1</sup> "The Financial Results of the Meat Packing Industry, 1954," Department of Marketing, American Meat Institute, Chicago 1955, compiled from table 6, p. 9.



TABLE 4.—*Sales and profits, meatpacking, 8 large firms, 1949–55*<sup>1</sup>

Year	Sales	Net income less taxes	
		Total	As percent- age of sales
	1,000 dollars	1,000 dollars	Percent
1949	6, 203, 837	29, 552	0. 48
1950	6, 225, 542	47, 983	0. 77
1951	7, 200, 829	40, 918	0. 57
1952	7, 045, 159	25, 302	0. 36
1953	7, 005, 710	53, 574	0. 76
1954	6, 938, 593	21, 364	0. 31
1955	6, 591, 484	51, 752	0. 79
Average	6, 744, 451	38, 635	0. 58

<sup>1</sup> Based on financial statements of meatpacking companies.

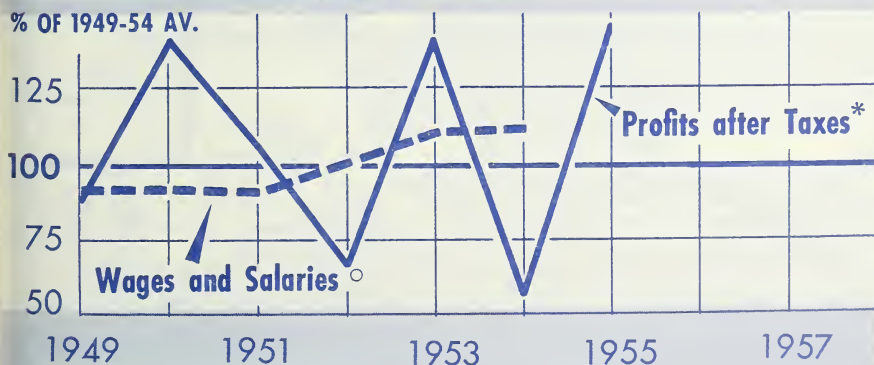
1953. However, profits in 1954 were at a record low for the 7 years 1949–55, about 55 percent of the average profits for those years. Some of the 8 firms reported losses for various years during 1949–1955. These data are for the meatpackers'

accounting years, which usually begin in October.

A comparison of changes in total wages and salaries, and net earnings after taxes as percentages of meatpacking sales, is shown in figure 17.

### As Percentage of Sales

## WAGES AND SALARIES AND NET PROFITS IN MEATPACKING



\* Financial reports of 8 large meatpacking firms

○ "The Financial Results of the Meatpacking Industry 1954," Department of Marketing, American Meat Institute, Chicago 1955, compiled from table 6, p. 9.

AMS NEG. 4011-56 (3)

Figure 17.

## Retailing

Retailers buy wholesale cuts of pork from packers and wholesalers which they fabricate into smaller cuts suitable for the retail trade. They cut and trim chops, roasts, and steaks, although many of the retail cuts of pork are sold in the same form at retail as bought at wholesale; for example, sliced bacon, picnics, sausage, and whole hams.

The retailer's margin covers the costs of the services performed as well as an allowance for losses in weight of the product because of cutting, trimming, boning, and shrinkage. The loss in weight at retail from cutting and trimming is less for pork than for other kinds of meat chiefly because much of the cutting and trimming required for pork is done at the packer-wholesaler level. The pork carcass is cut up at the packer level because some cuts are sold "fresh" immediately after cutting and trimming, while others are held back for curing and processing. Beef, veal, and lamb carcasses are commonly broken

down into the various cuts at the retail level.

Many different retail cuts are obtained from the pork carcass (fig. 18), and they sell at widely different prices. The more desirable and higher priced cuts—center slices of ham, center-cut pork chops—represent only a small proportion of the pork carcass.

An illustration of the wide differences in prices for the different retail cuts of pork for a typical retail food chain in New York City in February 1956 is shown in table 5.

Prices of the different retail cuts of pork ranged from a low of 15 cents a pound for neckbones to a high of 89 cents a pound for center slices of ham.

Different retail cuts of pork obtained from the same wholesale cut sell at widely different prices. For example, rib-end pork chops sold for less than half as much as center-cut chops, 29 cents a pound compared with 69 cents. Chops obtained from the loin-end sold for 39 cents a pound.

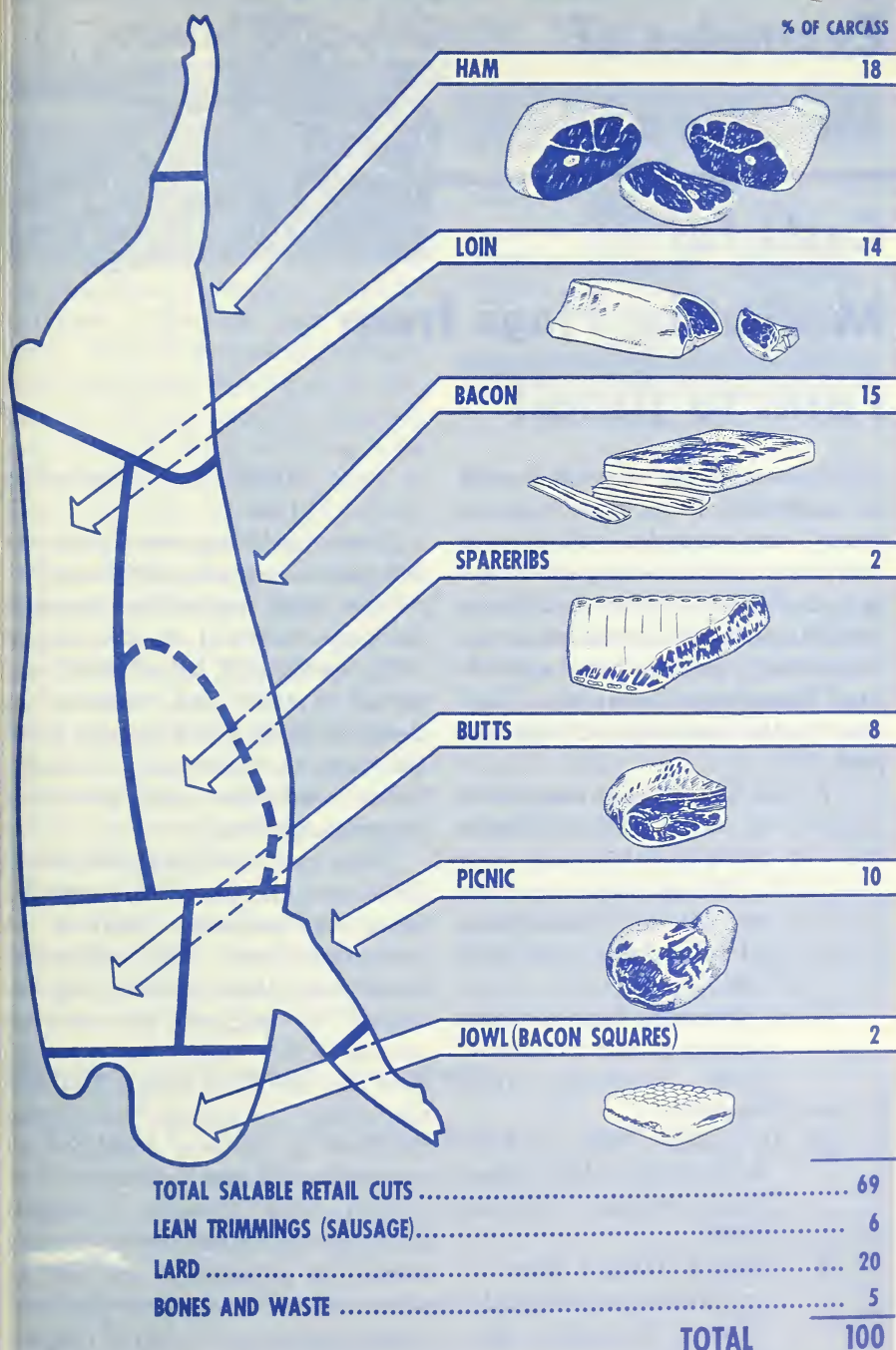
TABLE 5.—*Retail price per pound of pork, by specified cuts*<sup>1</sup>

Item	Price per pound
	<i>Cents</i>
<i>Fresh:</i>	
Center-cut pork chops.....	69
Loin-end chops or roast.....	39
Rib-end chops or roast.....	29
Spareribs.....	49
Neckbones.....	15
Butts.....	39
Pork sausage, bulk.....	31
<i>Cured:</i>	
Bacon, sliced No. 1.....	53
Bacon squares.....	23
Hams, whole or shank half.....	57
Ham, shank end.....	37
Ham, butt end.....	47
Ham, center slices.....	89
Picnics.....	33

<sup>1</sup> This table illustrates the differences in prices for various retail cuts of pork for a single group of food stores in a major United States city in February 1956.

# MAJOR RETAIL PORK CUTS

% OF CARCASS



AMS NEG. 4036-56 (3)

Figure 18.



# Examples of Margins and

## Costs for Marketing Hogs from Farm to Retail



To illustrate the steps and costs in marketing hogs from farm to retail, six examples, which are fairly representative and are based on actual market prices, have been worked out from information in the Department and the State agricultural experiment stations. They describe the marketing of hogs and pork from:

- A. An Iowa farm to consumers in New York City, March 1954 and 1955.
- B. An Illinois farm to consumers in Washington, D. C., April 1954 and 1955.
- C. A Nebraska farm to consumers in San Francisco, Calif., November 1954 and 1955.
- D. An Indiana farm to consumers in New York City, October 1954 and 1955.
- E. A South Dakota farm to consumers in Seattle, Wash., November 1954 and 1955.
- F. An Illinois farm to consumers in Chicago, Ill.,

April and September 1955.

These marketing movements are designed to represent different production and marketing programs for hogs farrowed in the fall of 1953, spring and fall of 1954, and spring of 1955, and marketed as slaughter hogs 6 to 8 months later. However, there are many other different production and marketing programs for hogs.

These cases are illustrative of individual marketings from selected farms to particular markets at particular times. The results obtained from these cases are not intended to suggest the average returns which might be expected from the different production and marketing programs, marketing channels or outlets, locations of slaughter, and retail outlets. Neither are they intended to suggest that any particular production and marketing program is superior to other programs, nor that any particular marketing system or channel is superior to other channels. Each should be considered strictly as an individual example of marketing.

## Example A.—HOG FROM FARM IN IOWA TO CONSUMERS IN NEW YORK CITY

This example assumes that a farmer in Iowa shipped his butcher hogs, averaging 230 pounds at the farm, by truck to a packing plant at Waterloo, Iowa, in March 1954 and in March 1955. Each hog would <sup>P</sup>have lost about 3 pounds as "shrink" in transit. The hogs were slaughtered. The 127 pounds of fresh and cured wholesale cuts of pork (excluding lard and inedible byproducts) derived from each hog were sold to a retail food chain store in New York City, where 124 pounds of retail cuts were sold to consumers.

After allowing for the inedible byproducts, not sold at retail, and for lard, consumers in New York City would have spent \$72.30 for the 124 pounds of retail pork cuts in March 1954, or an average of 58.3 cents a pound. One year later they would have bought the same pork cuts for \$53.23, or for an average price of 42.9 cents a pound.

Expressed in cents per retail pound of pork, total marketing costs increased slightly from March 1954 to March 1955, or from 18.2 cents to 18.9 cents (fig. 19). Returns to

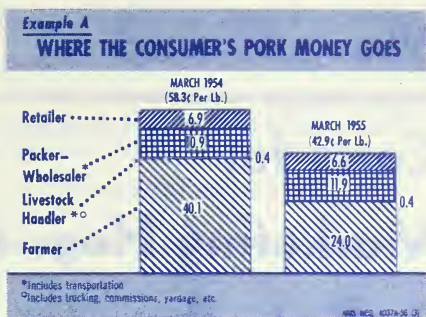


Figure 19.

the producer, however, declined during the same period from 40 cents a pound to 24 cents.

Percentagewise, the producer would have received 68.7 percent of the consumer's pork dollar in March 1954 and 56.0 percent a year later. The packer-wholesaler would have received 18.7 percent of the consumer's dollar in March 1954 and 27.6 percent in March 1955. The retailer's margin rose percentage-wise from 11.9 percent to 15.5 percent, and expenses of selling and shipping the live hog would have taken 0.7 percent of the consumer's dollar in March 1954 and 0.9 percent in March 1955.

### Estimated marketing costs and returns

#### Return to farmer:

	March 1954	March 1955
Sale value of 227-pound hog (shrink deducted) at Waterloo, Iowa.....	\$58. 27	\$35. 89
Less trucking expense from farm to packing plant at Waterloo, Iowa.....	. 57	. 57
Gross return to farmer.....	57. 70	35. 32

#### Return to packer-wholesaler:

	March 1954	March 1955
Wholesale value of 127 pounds of pork (excluding lard) at New York City.....	63. 67	44. 95
Less expense of shipping pork products from Waterloo, Iowa, to New York City.....	2. 22	2. 22

Continued on next page

## Estimated marketing costs and returns—Continued

Net received from sale of pork.....	61. 45	42. 73
Cost of 227-pound hog at Waterloo, Iowa.....	58. 27	35. 89
Less value of lard and inedible byproducts.....	8. 07	5. 61
Value of live hog less lard and byproducts.....	50. 20	30. 28
Gross return to packer-wholesaler.....	11. 25	12. 45
<i>Return to retailer:</i>		
Sale value of 124 pounds of retail cuts of pork (excluding lard).....	72. 30	53. 23
Less cost of 127 pounds of wholesale pork products.....	63. 67	44. 95
Gross return to retailer.....	8. 63	8. 28

## Estimated distribution of consumer's dollar spent for pork <sup>1</sup>

Item	Percentage of consumer's dollar	
	March 1954	March 1955
Return to Iowa farmer.....	<i>Percent</i> 68. 7	<i>Percent</i> 56. 0
Marketing livestock:		
Transportation.....	. 7	. 9
Packing-wholesaling:		
Transportation.....	3. 1	4. 2
Other.....	15. 6	23. 4
Total.....	18. 7	27. 6
Retailing.....	11. 9	15. 5
Grand total.....	100. 0	100. 0

<sup>1</sup> In estimating the distribution of the consumer's dollar spent for pork in this example of marketing and those following, returns to farmers and costs of marketing were adjusted for the value of inedible byproducts not sold at retail and for lard. The value of these products was not included in the retail pork value which served as a base for these percentage calculations.

## Example B.—HOG FROM FARM IN ILLINOIS TO CONSUMERS IN WASHINGTON, D. C.

This example assumes that a farmer in Illinois shipped his butcher hogs, averaging 234 pounds at the farm, by truck to a livestock market at Chicago in April 1954 and in April 1955. Each hog would have lost about 3 pounds as "shrink" in transit. The hogs were slaughtered. The 129 pounds of fresh and cured wholesale cuts of pork (excluding lard and inedible byproducts) derived from each hog were sold to a re-

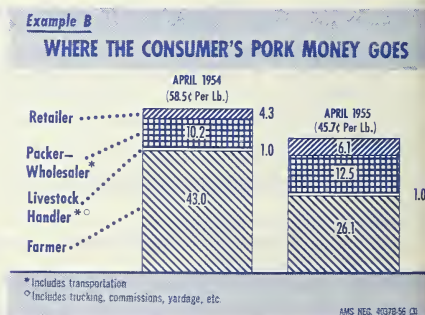


Figure 20.



tail food chain store in Washington, D. C., where 125 pounds of retail cuts were sold to consumers.

After allowing for the inedible byproducts, not sold at retail, and for lard, consumers in Washington, D. C., would have spent \$72.97 for the 125 pounds of retail pork cuts in April 1954, or an average of 58.4 cents a pound. One year later they would have bought the same pork cuts for 57.13, or for an average price of 45.7 cents a pound.

Expressed in cents per retail pound of pork, total marketing costs increased from April 1954 to April 1955, or from 15.5 cents to 19.6 cents (fig. 20). Returns to the

producer, however, declined during the same period from 43.0 cents a pound to 26.1 cents.

Percentage-wise, the producer would have received 73.6 percent of the consumer's pork dollar in April 1954 and 57.1 percent a year later. The packer-wholesaler would have received 17.4 percent of the consumer's dollar in April 1954 and 27.4 percent in April 1955. The retailer's margin rose percentage-wise from 7.3 percent to 13.2 percent, and expenses of selling and shipping the live hog would have taken 1.7 percent of the consumer's dollar in April 1954 and 2.3 percent in April 1955.

### Estimated marketing costs and returns

<i>Return to farmer:</i>			
Sale value of 231-pound hog (shrink deducted) at Chicago	-----	<i>April 1954</i> \$64. 17	<i>April 1955</i> \$40. 08
Less marketing expense:			
Shipping hog from farm to Chicago	\$0. 81		\$0. 81
Expenses at the market	. 69		. 72
Total marketing expense	-----	1. 50	1. 53
Gross return to farmer	-----	<u>62. 67</u>	<u>38. 55</u>
<i>Return to packer-wholesaler:</i>			
Wholesale value of 129 pounds of pork (excluding lard) at Washington, D. C.	-----	\$67. 62	\$49. 60
Less expense of shipping pork from Chicago to Washington	-----	1. 85	1. 85
Net received from sale of pork	-----	65. 77	47. 75
Cost of 231-pound hog at Chicago	\$64. 17		\$40. 08
Less value of lard and byproducts	9. 30		6. 14
Value of live hog less value of lard and inedible byproducts	-----	54. 87	33. 94
Gross return to packer-wholesaler	-----	<u>10. 90</u>	<u>13. 81</u>
<i>Return to retailer:</i>			
Sale value of 125 pounds of retail cuts of pork at Washington (excluding lard)	-----	\$72. 97	\$57. 13
Less cost of 129 pounds of wholesale cuts	-----	67. 62	49. 60
Gross return to retailer	-----	5. 35	7. 53

## Estimated distribution of consumer's dollar spent for pork

Item	Percentage of consumer's dollar	
	April 1954	April 1955
	<i>Percent</i>	<i>Percent</i>
Return to Illinois farmer.....	73.6	57.1
Marketing livestock:		
Transportation.....	0.9	1.2
Expenses at market.....	.8	1.1
Total.....	1.7	2.3
Packing-wholesaling:		
Transportation.....	2.5	3.2
Other.....	14.9	24.2
Total.....	17.4	27.4
Retailing.....	7.3	13.2
Grand total.....	100.0	100.0

## Example C.—HOG FROM FARM IN NEBRASKA TO CONSUMERS IN SAN FRANCISCO

This example assumes that a farmer in Nebraska shipped his butcher hogs, averaging 225 pounds at the farm, by truck to a terminal public market at Omaha, Nebr., in November 1954 and in November 1955. Each hog would have lost about 3 pounds as "shrink" in transit. The hogs were slaughtered. The 121 pounds of fresh and cured wholesale cuts of pork (excluding lard and inedible byproducts) derived from each hog were sold to a retail food chain store in San Francisco, where 117 pounds of retail cuts were sold to consumers.

After allowing for the inedible byproducts, not sold at retail, and for lard, consumers in San Francisco would have spent \$63.05 for the 117 pounds of retail pork cuts in November 1954, or an average of 54.0 cents a pound. One year later they would have bought the same

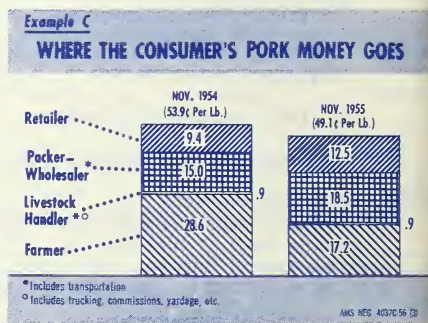


Figure 21.

pork cuts for \$57.50, or for an average price of 49.1 cents a pound.

Expressed in cents per retail pound of pork, total marketing costs increased from November 1954 to November 1955 from 25.3 cents to 31.9 cents (fig. 21). Return to the producer, however, declined during the same period from 28.6 cents a pound to 17.2 cents.

Percentagewise, the producer

would have received 53.0 percent of the consumer's pork dollar in November 1954 and 35.1 percent a year later. The packer-wholesaler would have received 27.9 percent of the consumer's dollar in November 1954 and 37.6 percent in November

1955. The retailer's margin rose percentagewise from 17.4 percent to 25.4 percent, and expenses of selling and shipping the live hog would have taken 1.7 percent of the consumer's dollar in November 1954 and 1.9 percent in November 1955.

### Estimated marketing costs and returns

#### Return to producer:

	November 1954	November 1955
Sale value of 222-pound hog (shrink deducted) at Omaha	\$41. 71	\$26. 73
Less marketing expense:		
Shipping hog from farm in Nebraska to Omaha	\$0. 56	\$0. 56
Expense at terminal market	. 76	. 78
Total marketing expense	1. 32	1. 34
Gross return to producer	40. 39	25. 39

#### Return to packer-wholesaler:

Wholesale value of 121 pounds of pork products (excluding lard) at San Francisco	52. 08	42. 90
Less:		
Cost of 222-pound butcher hog at Omaha	41. 71	26. 73
Expenses at Omaha market	. 32	. 32
Expense of shipping hog from Omaha to San Francisco for slaughter <sup>1</sup>	4. 28	4. 28
Total	46. 31	31. 33
Less value of lard and inedible byproducts	7. 97	6. 40
Value of live hog less lard and byproducts	38. 34	24. 93
Gross return to packer-wholesaler	13. 74	17. 97

#### Return to retailer:

Sale value of 117 pounds of retail cuts of pork, excluding lard, at San Francisco	63. 05	57. 50
Less cost of 121 pounds of wholesale cuts of pork	52. 08	42. 90
Gross return to retailer	10. 97	14. 60

<sup>1</sup> Shipping expense does not include loss to packer for shrinkage of hogs in transit. Allowance was made for 6 pounds shrink of live weight in estimating pounds of wholesale cuts of pork obtained from the live hog.



## Estimated distribution of consumer's dollar spent for pork

Item	Percentage of consumer's dollar	
	November 1954	November 1955
Return to Nebraska farmer.....	Percent 53. 0	Percent 35. 1
Marketing livestock:		
Transportation.....	0. 7	0. 8
Expenses at market.....	1. 0	1. 1
Total.....	1. 7	1. 9
Packing-wholesaling:		
Expenses at market.....	. 5	. 4
Transportation.....	5. 6	6. 0
Other.....	21. 8	31. 2
Total.....	27. 9	37. 6
Retailing.....	17. 4	25. 4
Grand total.....	100. 0	100. 0

## Example D.—HOG FROM FARM IN INDIANA TO CONSUMERS IN NEW YORK CITY

This example assumes that a farmer in Indiana shipped his butcher hogs, averaging 230 pounds at the farm, by truck to a terminal public market at Indianapolis in October 1954 and in October 1955. Each hog would have lost about 3 pounds as "shrink" in transit. The hogs were slaughtered. The 124 pounds of fresh and cured wholesale cuts of pork (excluding lard and inedible byproducts) derived from each hog were sold to a retail food chain store in New York City, where 120 pounds of retail cuts were sold to consumers.

After allowing for the inedible byproducts, not sold at retail, and for lard, consumers in New York City would have spent \$56.36 for the 120 pounds of retail pork cuts in October 1954, or an average of 47.0 cents a pound. One year

Example D

### WHERE THE CONSUMER'S PORK MONEY GOES

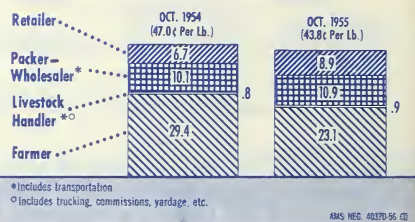


Figure 22.

later they would have bought the same pork cuts for \$52.55, or for an average price of 43.8 cents a pound.

Expressed in cents per retail pound of pork, total marketing costs increased from October 1954 to October 1955 from 17.6 cents to 20.7 cents (fig. 22). The return to the producer, however, declined during the same period from 29.4 cents a pound to 23.1 cents.

Percentagewise, the producer would have received 62.4 percent of the consumer's pork dollar in October 1954 and 52.7 percent a year later. The packer-wholesaler would have received 21.6 percent of the consumer's dollar in October 1954 and 25.0 percent in October

1955. The retailer's margin rose percentagewise from 14.2 percent to 20.3 percent, and expenses of selling and shipping the live hog would have taken 1.8 percent of the consumer's dollar in October 1954 and 2.0 percent in October 1955.

## Estimated marketing costs and returns

### Return to farmer:

	October 1954		October 1955	
Sale value of 227-pound hog (shrink deducted) at Indianapolis.....		\$43. 31		\$34. 19
Less marketing expense:				
Shipping hog from farm to Indianapolis.....	\$0. 57		\$0. 57	
Expense at Indianapolis market.....	. 68		. 68	
Total marketing expense.....		1. 25		1. 25
Gross return to farmer.....		42. 06		39. 94

### Return to packer-wholesaler:

Wholesale value of 124 pounds of pork products (excluding lard) in New York City.....		48. 35		41. 90
Cost of pork to packer:				
Cost of 227-pound hog at Indianapolis.....	43. 31		34. 19	
Expense at Indianapolis terminal market.....	. 32		. 32	
Expense of shipping hog from Indianapolis to Jersey City <sup>1</sup> .....	2. 34		2. 34	
Cost of hog delivered at Jersey City.....	45. 97		36. 85	
Less value of lard and inedible products.....	7. 46		5. 87	
Value of live hog less lard and byproducts.....		38. 51		30. 98
Gross return to packer-wholesaler....		9. 84		10. 92

### Return to retailer:

Sale value of 120 pounds of retail cuts of pork (excluding lard) at New York City.....		56. 36		52. 55
Less cost of 124 pounds of wholesale cuts of pork.....		48. 35		41. 90
Gross return to retailer.....		8. 01		10. 65

<sup>1</sup> Shipping expense does not include loss to packer for shrinkage of hogs in transit. Allowance was made for 6 pounds shrink of live weight in estimating pounds of wholesale cuts of pork obtained from the live hog.

## Estimated distribution of the consumer's dollar spent for pork

Item	Percentage of consumer's dollar	
	October 1954	October 1955
Return to Indiana farmer.....	Percent 62.4	Percent 52.7
Marketing livestock:		
Transportation.....	0.8	0.9
Expenses at market.....	1.0	1.1
Total.....	1.8	2.0
Packing-wholesaling:		
Expenses at market.....	.5	.5
Transportation.....	3.5	3.7
Other.....	17.6	20.8
Total.....	21.6	25.0
Retailing.....	14.2	20.3
Grand total.....	100.0	100.0

## Example E.—HOG FROM FARM IN SOUTH DAKOTA TO CONSUMERS IN SEATTLE

This example assumes that a farmer in South Dakota shipped his butcher hogs, averaging 235 pounds at the farm, by truck to a terminal public market at Sioux City in November 1954 and in November 1955. Each hog would have lost about 3 pounds as "shrink" in transit. The hogs were slaughtered. The 130 pounds of fresh and cured wholesale cuts of pork (excluding lard and inedible by-products) derived from each hog were sold to a retail food chain store in Seattle, where 126 pounds of retail cuts were sold to consumers.

After allowing for the inedible by-products, not sold at retail, and for lard, consumers in Seattle would have spent \$62.59 for the 126 pounds of retail pork cuts in No-

Example E

### WHERE THE CONSUMER'S PORK MONEY GOES

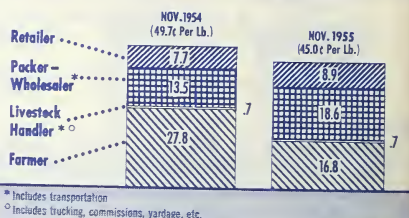


Figure 23.

vember 1954, or an average of 49.7 cents a pound. One year later they would have bought the same pork cuts at \$56.72, or for an average price of 45.0 cents a pound.

Expressed in cents per retail pound of pork, total marketing costs increased from November 1954 to November 1955 from 21.9 cents to 28.2 cents (fig. 23). The



return to the producer, however, declined during the same period from 27.8 cents a pound to 16.8 cents.

Percentagewise, the producer would have received 56.0 percent of the consumer's pork dollar in November 1954 and 37.4 percent a year later. The packer-wholesaler would have received 27.1 per-

cent of the consumer's dollar in November 1954 and 41.4 percent in November 1955. The retailer's margin rose percentagewise from 15.4 percent to 19.7 percent, and expenses of selling and shipping the live hog would have taken 1.5 percent of the consumer's dollar in November 1954 and 1.5 percent in November 1955.

## Estimated marketing costs and returns

	November 1954	November 1955
<i>Return to farmer:</i>		
Sale value of 232-pound hog (shrink deducted) at Sioux City, Iowa.....	\$42. 97	\$27. 47
Less marketing expense:		
Shipping hog from farm to Sioux City..	\$0. 35	\$0. 35
Expenses at Sioux City market.....	. 70	. 70
Total marketing expense to farmer..	1. 05	1. 05
Gross return to farmer.....	41. 92	26. 42
<i>Return to packer-wholesaler:</i>		
Wholesale value of 130 pounds of pork cuts (excluding lard) at Seattle.....	52. 97	45. 52
Less expense of shipping wholesale cuts from Sioux City to Seattle.....	3. 45	3. 45
Net received from sale of pork.....	49. 52	42. 07
Cost of 232-pound hog at Sioux City, Iowa..	42. 97	27. 47
Less value of lard and inedible byproducts..	6. 99	5. 40
Value of live hog less value of lard and inedible byproducts.....	35. 98	22. 07
Gross return to packer-wholesaler...	13. 54	20. 00
<i>Return to retailer:</i>		
Sale value of 126 pounds of retail cuts, excluding lard.....	62. 59	56. 72
Less cost of 130 pounds of wholesale pork products.....	52. 97	45. 52
Gross return to retailer.....	9. 62	11. 20

## Estimated distribution of consumer's dollar spent for pork

Item	Percentage of consumer's dollar	
	November 1954	November 1955
Return to South Dakota farmer.....	Percent 56.0	Percent 37.4
Marketing livestock:		
Transportation.....	0.5	0.5
Expenses at market.....	1.0	1.0
Total.....	1.5	1.5
Packing-wholesaling:		
Transportation.....	5.5	6.1
Other.....	21.6	35.3
Total.....	27.1	41.4
Retailing.....	15.4	19.7
Grand total.....	100.0	100.0

## Example F.—HOG FROM FARM IN ILLINOIS TO CONSUMERS IN CHICAGO

This example assumes that a farmer in Illinois shipped his butcher hogs, averaging 230 pounds at the farm, by truck to a livestock terminal public market at Chicago in April 1955 and in September 1955. Each hog would have lost about 3 pounds as "shrink" in transit. The hogs were slaughtered. The 129 pounds of fresh and cured wholesale cuts of pork (excluding lard and inedible byproducts) derived from each hog were sold to a retail food chain store in Chicago where 125 pounds of retail cuts were sold to consumers.

After allowing for the inedible byproducts, not sold at retail, and for lard, consumers in Chicago would have spent \$58.90 for the 125 pounds of retail pork cuts in April 1955, or an average of 47.1 cents a

Example F

### WHERE THE CONSUMER'S PORK MONEY GOES

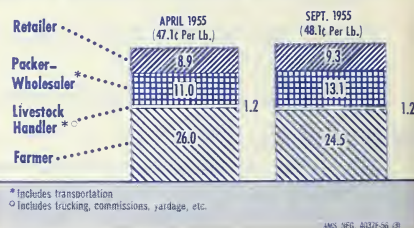


Figure 24.

pound. Five months later they would have bought the same pork cuts for \$60.13, or for an average price of 48.1 cents a pound.

Expressed in cents per retail pound of pork, total marketing costs increased slightly from April 1955 to September 1955, or from 21.1 cents to 23.6 cents (fig. 24). The return to the producer, how-

ever, declined during the same period from 26.0 cents a pound to 24.5 cents.

Percentage-wise, the producer would have received 55.1 percent of the consumer's pork dollar in April 1955 and 51.0 percent 5 months later. The packer-wholesaler would have received 23.4 percent of the

consumer's dollar in April 1955 and 27.2 percent in September 1955. The retailer's margin rose percentage-wise from 18.9 percent to 19.3 percent, and expenses of selling and shipping the live hog would have taken 2.6 percent of the consumer's dollar in April 1955 and 2.5 percent in September 1955.

### Estimated Marketing Costs and Returns

#### Return to producer:

	April 1955	September 1955
Sale value of 231-pound hog (shrink deducted) at Chicago .....	\$40. 08	\$37. 79
Less marketing expense:		
Shipping hog from farm to Chicago .....	\$1. 02	\$1. 02
Expenses at livestock market .....	. 74	. 74
Total marketing expense .....	1. 76	1. 76
Gross return to farmer .....	38. 32	36. 03

#### Return to packer-wholesaler:

Sale value of 129 pounds of pork products (excluding lard) at Chicago .....	\$47. 75	\$48. 53
Less cost of pork to packer:		
Cost of 231-pound hog at Chicago .....	\$40. 08	\$37. 79
Less value of lard and byproducts .....	6. 14	5. 63
Value of hog less lard and byproducts .....	33. 94	32. 16
Gross return to packer-wholesaler .....	13. 81	16. 37

#### Return to retailer:

Sale value of 125 pounds of retail cuts of pork at Chicago .....	58. 90	60. 13
Less cost of 129 pounds of wholesale pork products .....	47. 75	48. 53
Gross return to retailer .....	11. 15	11. 60

### Estimated distribution of consumer's dollar spent for pork

Item	Percentage of consumer's dollar	
	April 1955	September 1955
	Percent	Percent
Return to Illinois farmer .....	55. 1	51. 0
Marketing livestock:		
Transportation .....	1. 5	1. 4
Expenses at market .....	1. 1	1. 1
Total .....	2. 6	2. 5
Packing-wholesaling .....	23. 4	27. 2
Retailing .....	18. 9	19. 3
Grand total .....	100. 0	100. 0



## RETURNS AND MARGINS VARY WIDELY

These examples of marketing hogs and pork from farm to consumer tend to bring out the importance of variations in net returns received by farmers and marketing agencies resulting from differences in marketing channels used, location, time of marketing, and other factors. Had the farmer in each example decided to market his hogs one month earlier or one month later, his returns, and returns to the packer-wholesaler and retailer, might have been substantially different. Differences in marketing expenses and net returns for individual marketing movements are, of course, hidden in the averages and aggregate data presented earlier in this report. Information on such differences is important to a general understanding of marketing hogs and pork.

These cases also illustrate, in terms of individual marketings of hogs and pork from farm to consumer, the prices farmers received for their hogs, what consumers paid for retail cuts of pork, and what each of the various marketing agencies got for services performed. They show that differences between costs and selling prices can vary greatly, yielding different margins for similar services at different times.

U. S. GOVERNMENT PRINTING OFFICE : 1956 O - 381235

---

For sale by the Superintendent of Documents, U. S. Government Printing Office  
Washington 25, D. C. - Price 20 cents



